96

limited

inc

the limited inc 1996 annual report

"the strategic plan set in motion in '95...is having an impact at every level"

DEAR PARTNER

Before I sat down to write this letter, I re-read my copy of last year's report. I wanted to check something: Did I say what I meant? Did we do what I said? How does it all look, twelve months down the road?

In 1995, I talked about the ways in which we were fundamentally reinventing the business: sweeping change, greater discipline, more centralization and a plan to build brands, not just businesses.

Looking back now, nearly a year later, I'd say that, to a large degree, we did exactly what we set out to do in 1996. The strategic business plan that we set in motion in '95, a plan that essentially reinvented our core businesses and operations, is working. It's having an impact at virtually every level, within the operating businesses, and in the support group.

We've rethought production, quality, pricing, marketing, recruiting and brand building. I've rethought my own role, the skills I need from myself and those who support me. I've asked every member of my support group to look hard at their own efforts. What's working. What isn't. And what they have to do to get us to next.

Nearly all of our businesses made significant progress. The Intimate Brands group, in particular Victoria's Secret Stores and Bath & Body Works, had an excellent year, with solid sales and earnings growth. Abercrombie & Fitch had an outstanding year. Lerner New York, Structure and Limited Too also made significant progress.

Unfortunately, a few businesses did not fare as well. Express, in particular, had a very poor year. So poor, in fact, that its performance impacted the total progress made in other divisions.

Express' problems are fixable. And, later in this letter, I'll address the initiatives already underway to get Express back on track.

By now it's been reported that The Limited, Inc.'s 1996 sales totaled $8.6 billion, with operating income of $636 million. In March, the Company repurchased 85 million shares through self-tender. Additionally, our Board voted to increase the Company's annual dividend by 20% to $.48 per share.

In 1996, we also completed another successful initial public offering, Abercrombie & Fitch. The net proceeds from the 16% sale of Abercrombie & Fitch yielded $118 million. Most important, the business achieved a 62% increase in net income in the fourth quarter, its first as a public company. Abercrombie is clearly a very profitable business. It is also an exceedingly powerful lifestyle brand that resonates to an entire generation of young people. When I refer to apparel brands with a clear and vivid personality, think Abercrombie. That's my model. And my acid test for all our operating businesses.

I told you last year we would continue to close underperforming stores, and we have. We closed 135 in '96, and we expect to match or exceed that number this year. In fact, since 1995 we have closed 213 stores.

Years ago, in our annual reports, I used to comment about never having closed a store. I'm over it. The world changes. No more so than in fashion. And we have to recognize what works, including real estate, and get on with it.

building brands

I was very clear with the operating businesses this year: the number and duration of our price promotions were damaging the brands. It had to stop. Brands are not built through price promotions. Brands are built, money is made, wealth is created, on the sell side, not the buy side. This is never more true than in fashion brands.

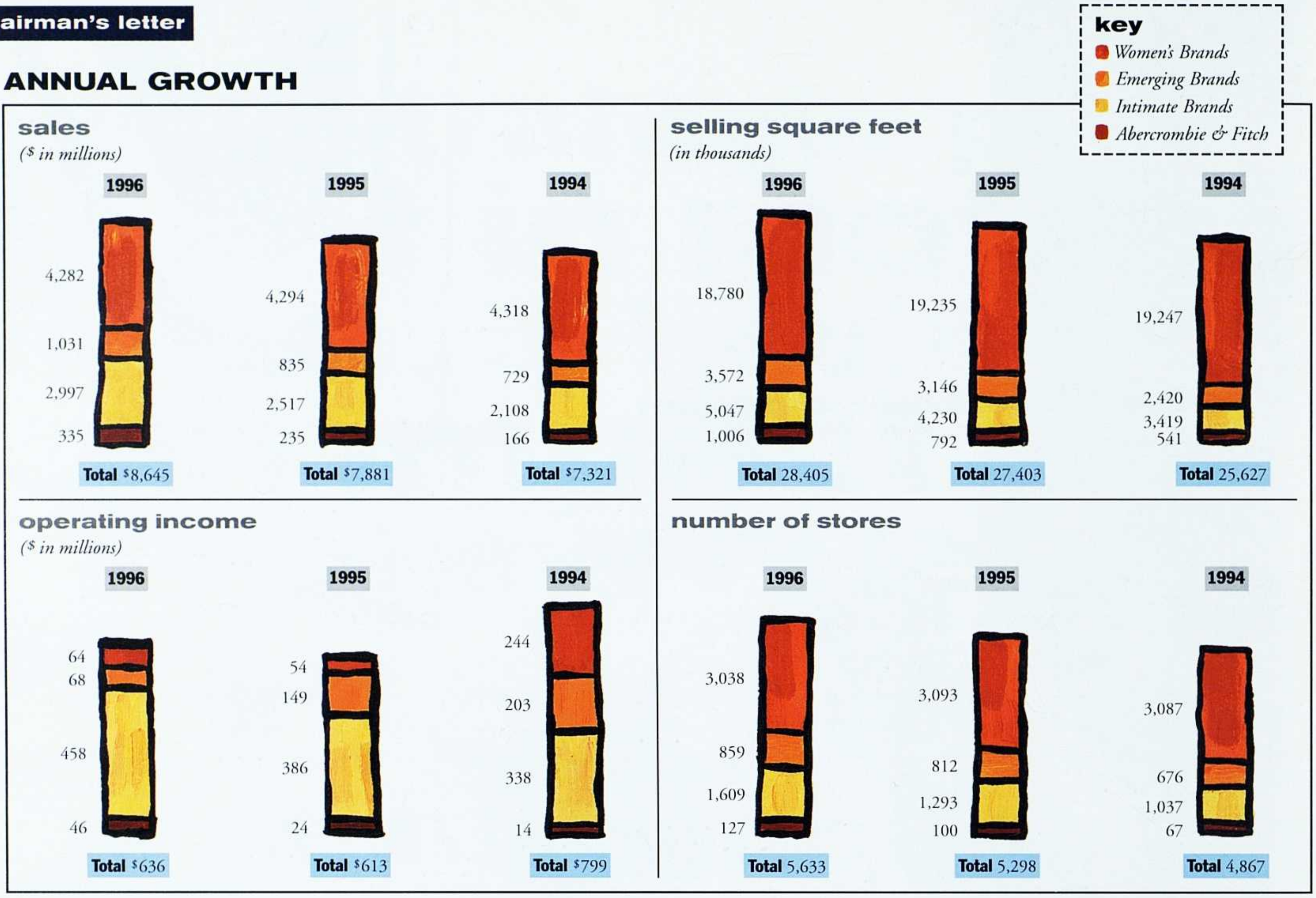
Throughout the year, as competitors bounced from one special offer to the next, my direction to operating presidents stayed consistent: Keep your powder dry. Preserve your brand equity. Don't overreact.

The strategy worked. And, it's still working. As a direct result, many of our businesses have shown healthy margin and profit gains.

Victoria's Secret Stores may be the best example. In the past, there might have been


leslie h. wexner, chairman

ANNUAL GROWTH



OPERATING RESULTS

(Thousands except per share amounts)	1996	1995	1994
net sales	$8,644,791	$7,881,437	$7,320,792
operating income	$636,067	$613,349	$798,989
gain on sale of subsidiary stock	$118,178	$649,467	—
net income	$434,208	$961,511	$448,343
net income as a percentage of sales	● 3.7%	● 4.0%	6.1%
net income per share	$1.54	$2.68	$1.25
net income per share (excluding gain on sale of subsidiary stock)	$1.12	$.87	$1.25
dividends per share	$.40	$.40	$.36

YEAR-END POSITION

(Thousands except financial ratios)	1996	1995	1994
total assets	$4,120,002	$5,266,563	$4,570,077
working capital	$638,204	$2,018,960	$1,750,111
current ratio	1.7	3.5	3.2
long-term debt	$650,000	$650,000	$650,000
debt-to-equity ratio	34%	20%	24%
shareholders' equity	$1,922,582	$3,201,041	$2,760,956
return on average shareholders' equity	● 16%	● 10%	17%

● *Excludes the effect on net income of the gain on sale of subsidiary stock of $118,178 in 1996 and $649,467 in 1995.*

as many as a dozen price promotions in a Victoria's Secret store on any given day. No more. Now, Victoria's Secret is known for fashion, innovation and image. It has become the dominant lingerie brand in the world. It is a brand that sells for what it is, not where it's priced.

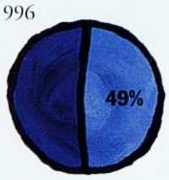
Still, we must recognize that great fashion brands are more than a steady stream of new products or lack of promotional sale signage. Great brands elicit an emotionally powerful response from the consumer. They are sustainable. And customers remain loyal to them.

Clearly we've demonstrated in the past that we know how to strike that chord: seeing market niches that hadn't existed before, as in the case of Victoria's Secret; or finding a new reason to shop in a market where others couldn't see, or seize the opportunity, as with Bath & Body Works.

To a large degree, those businesses started with my intuition, my sense of a market void, and how to fill it. In truth, I daydreamed about the possibility of a Limited-type men's

WOMEN'S BRANDS

1996



% of total sales *(in millions)*

1996	1995	1994
$4,282	$4,294	$4,318
49%	54%	59%

1996

% of total operating income *(in millions)*

1996	1995	1994
$64	● $54	$244
10%	9%	31%

sales per average selling square foot

	1996	1995	1994
Express	$298	$323	$336
Lerner New York	$169	$155	$152
Lane Bryant	$228	$231	$249
Limited Stores	$209	$198	$197
Henri Bendel	$904	$1,002	$904
Total	$225	$223	$224

● *1995 includes a special and nonrecurring charge of $48 million, primarily for store closings and downsizings.*

EMERGING BRANDS

1996

% of total sales *(in millions)*

1996	1995	1994
$1,031	$835	$729
12%	11%	10%

1996

% of total operating income *(in millions)*

1996	1995	1994
$68	● $149	● $203
11%	24%	25%

sales per average selling square foot

	1996	1995	1994
Structure	$321	$308	$351
Limited Too	$277	$273	$282
Galyan's Trading *(since 7/2/95)*	$293	$184	N/A
Total	$306	$288	$332

● *1995 and 1994 include 100% of WFNNB's operating income before interest expense and 1995 includes the gain from the sale of a 60% interest in WFNNB, partially offset by special and nonrecurring charges.*

INTIMATE BRANDS

1996

% of total sales *(in millions)*

1996	1995	1994
$2,997	$2,517	$2,108
35%	32%	29%

1996

% of total operating income *(in millions)*

1996	1995	1994
● $458	$386	$338
72%	63%	42%

sales per average selling square foot

	1996	1995	1994
Victoria's Secret Stores	$458	$459	$479
Bath & Body Works	$684	$710	$705
Cacique	$240	$225	$278
Total	$494	$482	$486

● *1996 includes a $12 million special and nonrecurring charge in connection with the sale of Penhaligon's in early 1997.*

ABERCROMBIE & FITCH

1996

% of total sales *(in millions)*

1996	1995	1994
$335	$235	$166
4%	3%	2%

1996

% of total operating income *(in millions)*

1996	1995	1994
$46	$24	$14
7%	4%	2%

sales per average selling square foot

	1996	1995	1994
Abercrombie & Fitch	$373	$354	$350

business nearly ten years before the first Structure store opened, and saw the very large void for a younger women's business easily five years before we opened the first Express in Chicago's Water Tower Place.

I believe we have demonstrated that we can invent businesses that are not only powerful brands, but ones that have great commercial potential. My criterion is simple: if it can't be at least a $1 billion stand-alone business in the U.S. market, we shouldn't be in it. Which is, by the way, the reason we recently made the decision to sell Penhaligon's, a quality business that, I believed, did not match this criterion.

Once we recognize a market opportunity, and develop a brand to fill it, we put the full force of the businesses' marketing, merchandising, sourcing, store design, finance and distribution skills behind it. And, once the concept has been tested, refined, and its potential proven, we move. In fact, no one moves faster. Example? We took nearly two years to open our first hundred Bath & Body Works stores. The last hundred opened in just forty-five days. Invent the concept. Prove its worth. Move forward fast.

Clearly, this ability to spot holes in the market, and develop concepts to fill them, is one of our primary skills. Still, it became clear to me that, if we were to reach our true growth potential, these branding skills had to be rationalized and documented. An articulated core process, a way to build vivid brands, with every detail spelled out. It's not as simple as it might appear. I don't believe that any multibranded apparel company, certainly not one of our size, had ever done it before. The skills required to build powerful retail brands have, I believe, unique aspects that can't be generalized. So we've begun documenting the process over the past several months, and we are using it rigidly to improve and ensure brand execution.

This is a major effort, and a fundamental change in the way we do business. It recognizes that brand management is a core competency and a standardized, centralized process. One that takes constant vigilance. One that is executed at the highest level.

Now, along with the Support Marketing Group, typically, I have monthly brand meetings with the individual operating businesses. The President, the Marketing Director, the CFO, the Head Merchant and Designer all attend. There's agreement, and alignment, around the core elements of the brand; elements that are, basically, written in stone. It's a powerful tool. A terrific way to edit out inconsistencies in the brand. A method of separation, and definition.

The system shows every sign of working, and working well. There's much less possibility for one or two people to interpret or misinterpret direction. No one goes off on their own flight of fancy. The core of the brand is rigidly defined. And it's up to the operating president to execute the direction. Flawlessly.

fixing express

After years of consistent growth and solid profits, 1996 was, by any standard, a very poor year at Express, with a particularly disappointing fourth quarter.

In hindsight, the problems seem obvious. The brand had abandoned its core customer, central position and brand disciplines.

Instead of being a current, young, international fashion brand, Express lost their focus and began to think of their customer in generalized terms—somewhere between eighteen and forty years of age. Without rigid disciplines, and edit points, in place, the fashion floundered, the clothes got boring, the customer said "no."

Let me make this plain: fixing Express, and fixing it quickly, is our top short-term priority. I am determined that it again become the significant contributor it must be.

In order to ensure Express' rapid reemergence as a powerfully competitive young brand, Michael Weiss left his position, as Vice Chairman and leader of the women's businesses, to return to Express as its President.

Michael is a superb merchant, with a great eye, and a passionate leader who has demonstrated his ability to achieve consistently strong sales and profits. He took Express from virtually zero in 1982 to sales of $1.4 billion in 1993, making it our largest, most profitable business. So, when Express lost its way, Michael and I talked about what to do, and mutually agreed he should go back to his home and first love, Express.

Frankly, I don't think I've seen him happier in years. And, I believe, Express associates and customers are already responding to his clear and steady direction to recapture this brand's market segment.

The lessons learned at Express were, and are, painful. Much of it could have been avoided had we kept them "on brand." Had we taken action sooner.

The centralized brand management process described earlier could, I believe, have prevented many of Express' recent performance issues. It is now in use. I have no intention of repeating Express '96.

consistent quality is a must

What do you call fashion that doesn't fit? A markdown.

Yes, we are in the fashion business, but implicit in that is a consistent level of quality and fit. In the past, as you may know, that wasn't always true. And clearly, in some instances, we paid the price for inconsistent quality through lost sales. Part of that, certainly, could be attributed to rapid growth, but it's no excuse.

This is a large business with an enormous base of supply. By 1995, our businesses in total were using more than 1,600 factories to manufacture the clothes that went into our stores and catalogues. The sheer numbers alone worked against any possibility of consistent quality.

That had to change. Now, the Presidents of each business are directly responsible, and accountable, for the quality of their garments. Vendor and factory lists are being drastically reduced, and individual merchants no longer have the power to make significant sourcing decisions. Quality is a brand issue. One the Presidents must take personal responsibility for.

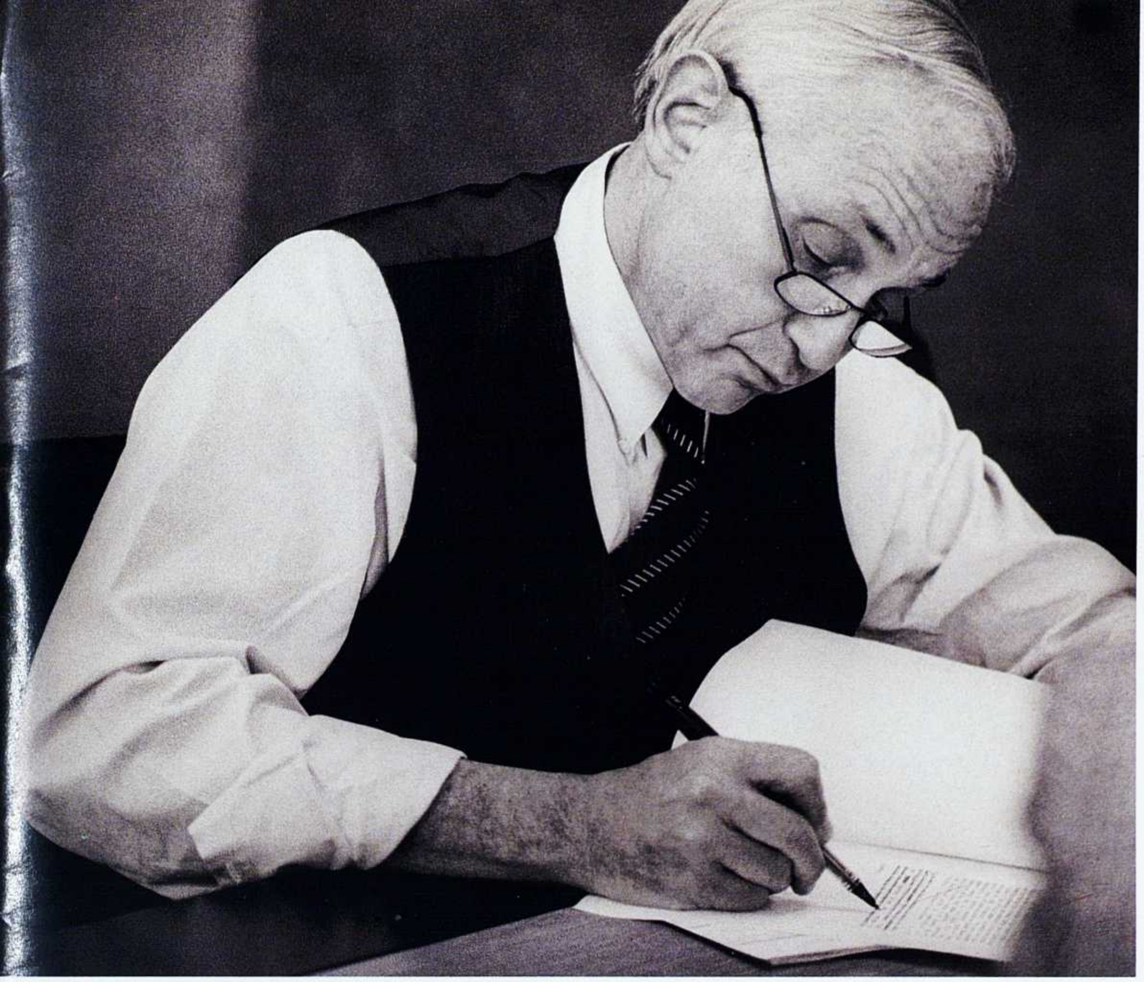
In the past year, Limited Stores served as the pilot for a detailed new sourcing strategy. Their major manufacturers went from sixty to twenty; fit and quality control were tightly regulated; and it's begun to make an impact. Customers don't notice these changes overnight. But they do notice. I'm confident that Limited Stores' quality disciplines, married to a well-articulated brand strategy, are already helping them regain their position as a significant brand in the women's sportswear category.

importance of design

The businesses have gotten too big, and the world has gotten too small, for us to be successful by merely imitating the best of what's happening in the fashion world at large.

Great brands have a powerfully consistent view, an edit point, that makes them not only recognizable, but desirable, to customers.

"fixing express... is our top short-term priority"



Too often, our businesses have copied each other, with the only distinguishing feature being price point.

No more.

Designers, and full-blown design teams, are now at work in nearly all of our businesses, helping to differentiate by designing fashion around tightly defined brand positions. Good for now. Even better for the long run.

Take Lerner New York. When Richard Crystal became President, he hired one of the fashion industry's best designers, Charlotte Neuville, to lead his design team. Together they are delivering exciting, budget-conscious fashion to a very wide audience. And they're getting results.

recognizing the winners

I said earlier that several of our businesses had excellent years, and they should be recognized for their efforts.

Victoria's Secret dominates the lingerie category with powerful new product introductions like the Miracle Bra, Second Skin Satin, Perfect Silhouette and, most recently, Angels. They support these launches with dynamic, brand-consistent television advertising, which extends their reach and cements their position as the world's most glamorous lingerie brand. They then reinforce that position through the Annual Victoria's Secret Spring Fashion Show, which has become major news internationally. And, as their product introductions have become more sophisticated, their margins have increased. Clearly a brand-driven strategy.

Victoria's Secret Catalogue also introduced profitable, brand-enhancing new books this year. The oversized, special edition Christmas Dreams and Fantasies catalogue was a significant profit producer, and hopefully a model for the future that reinforces the aspiration of the brand. Victoria's Secret has great momentum, in both Stores and Catalogue, with substantial room for growth.

I've often thought that if soaps were supermodels, Bath & Body Works might be the most famous brand in the world. BBW is solidly managed, and went through another year of extraordinary growth. Their position, simple Midwestern values, strikes a powerful chord with a large number of people domestically and will, we believe, worldwide. A precise position, consistently executed. And, again, a brand with much potential in front of them.

I've already talked about Abercrombie & Fitch, but I do want to say that Mike Jeffries and his team clearly understand their brand, and, more important, their customer. Abercrombie & Fitch's fashion sensibility, coupled with an intense customer intimacy and near-flawless execution of everything from outside graphics to garment labels, hang tags and photography, makes it one of the great emerging retail brands.

There is so much potential in our businesses. So much opportunity for growth and increased profitability.

Lane Bryant is another good example. Uniquely suited to serve the 40% of American women who are size 14 or above, I believe Lane Bryant has the potential to double in size.

I also see great potential at Limited Too, where Mike Rayden became President less than a year ago, and immediately began to deliver consistent, double-digit increases in comparable store sales. Going into '97, Limited Too is on a roll. And a big part of their success is sound, fundamental business leadership.

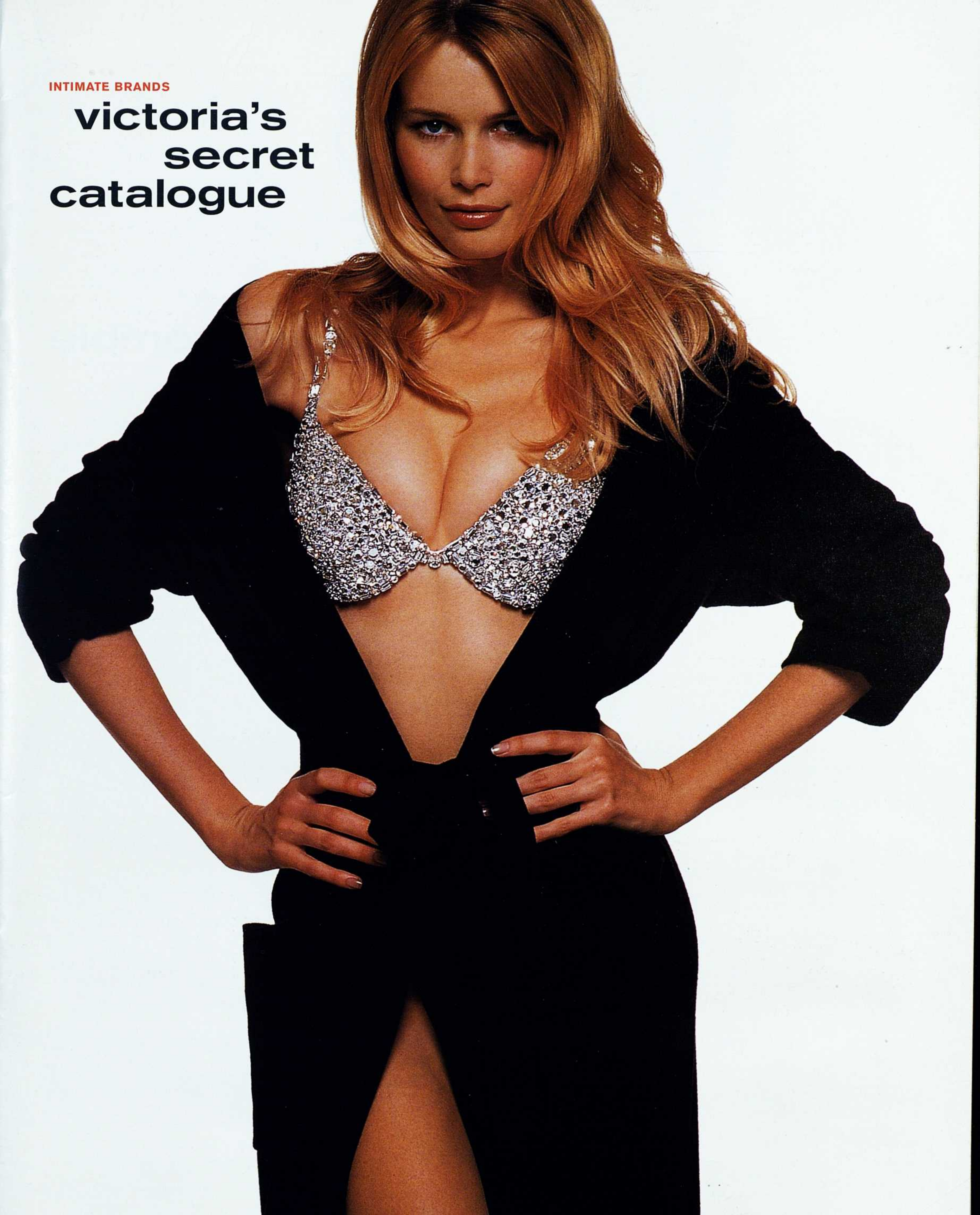
That, too, is the case at Structure, where a dramatic brand redefinition over the past twelve months has brought significant payback. Structure is realizing their market potential in the success of a number of core businesses. I believe that these successes will certainly lead to powerful brand wins across multiple categories.

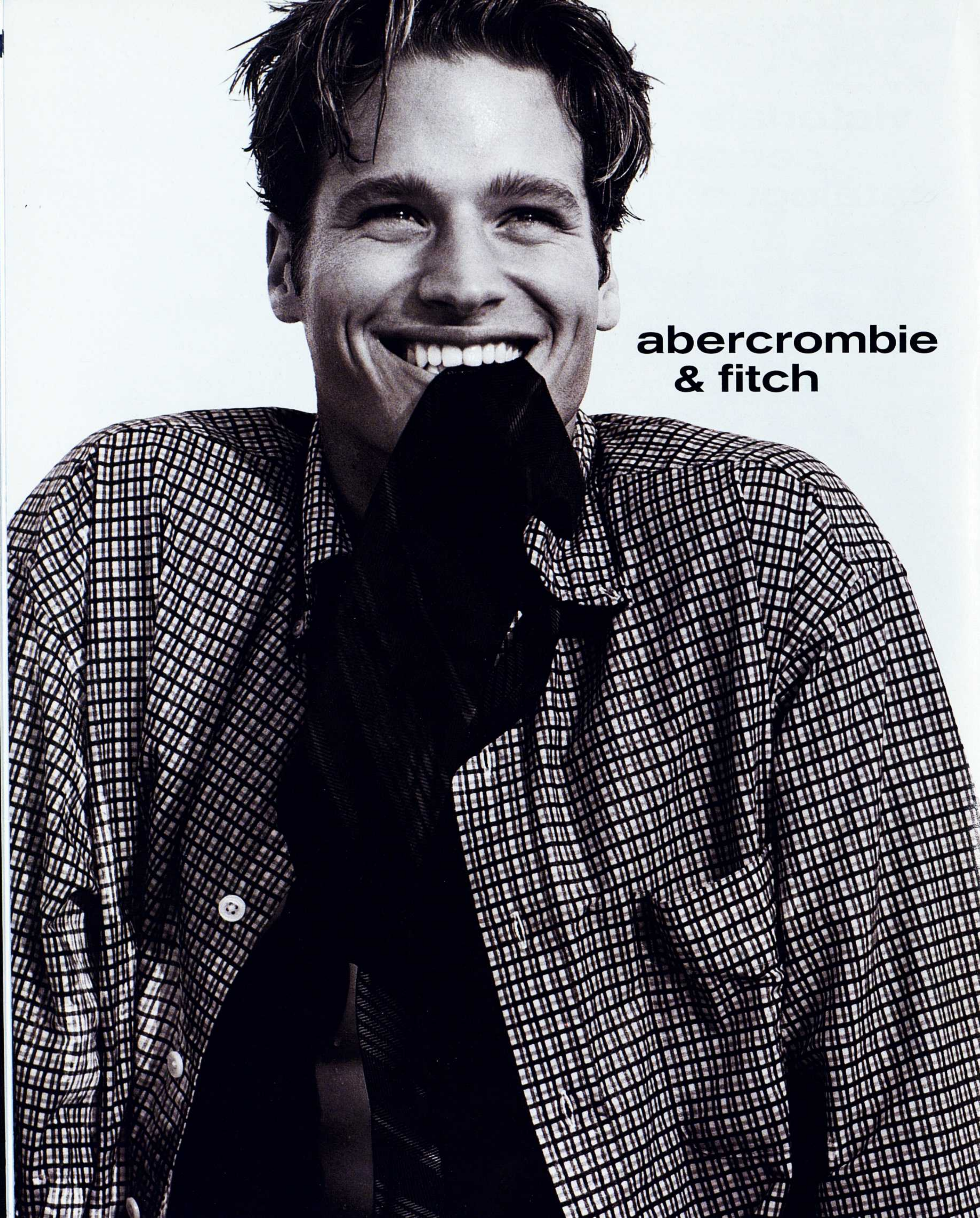
When I reflect on the businesses today, I can honestly say I don't believe we've ever had a stronger group of leaders. They are good business executives and passionate retailers who complement their businesses and their organizations. They are energized, and badly want to win, as do I. With every passing day, I am more confident that the direction we've taken over the past two years, and the disciplines and structures we've put into place, are exactly what our Presidents and this business need to succeed.

We are determined to build a Company of powerful, differentiated retail brands that maintain and strengthen our position as the world's dominant specialty retailer.

LESLIE H. WEXNER
chairman

brands are built, money is made, wealth is created, on the sell side, not the buy side


INTIMATE BRANDS
victoria's
secret
catalogue

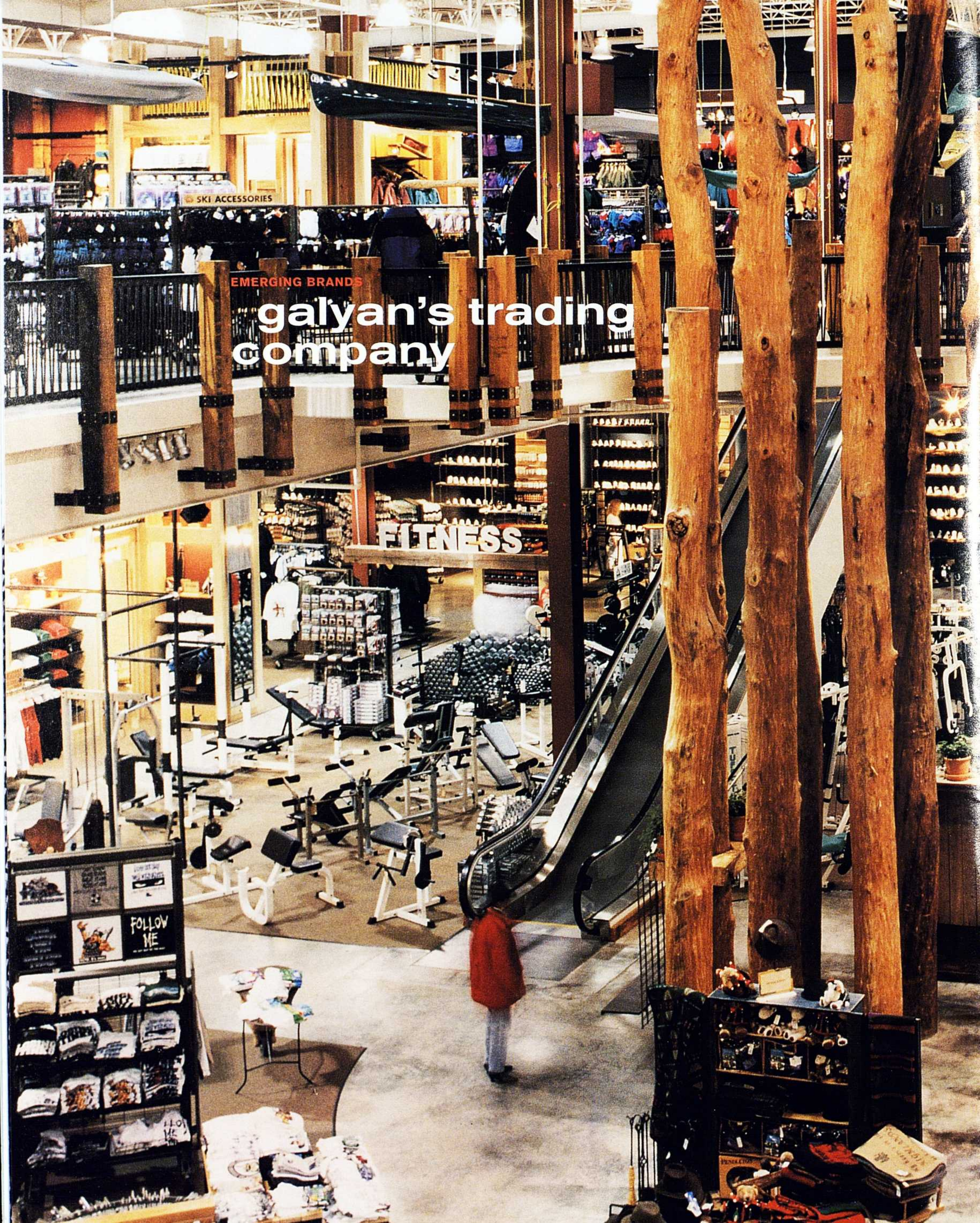

abercrombie
& fitch

WOMEN'S BRANDS

express

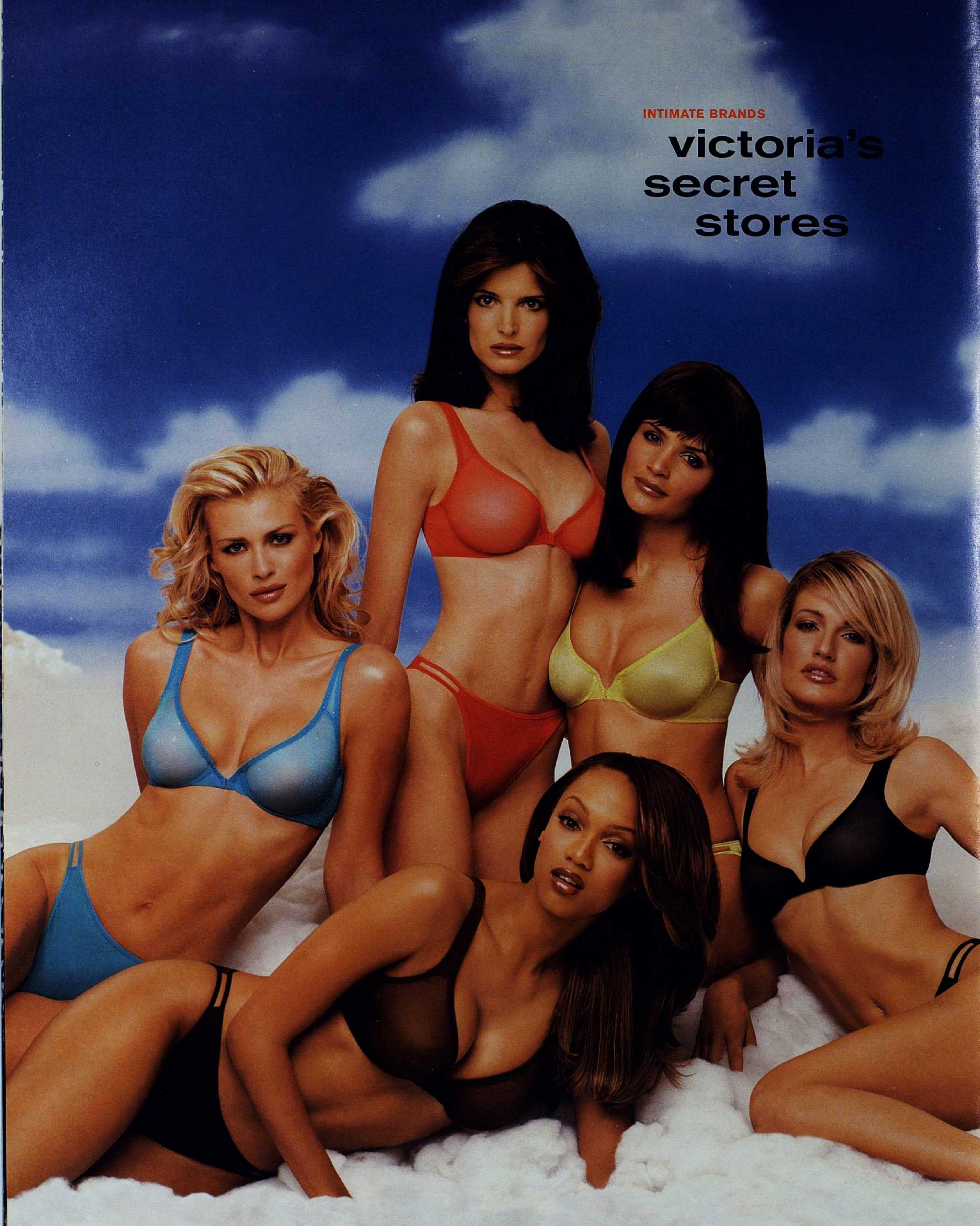
EMERGING BRANDS

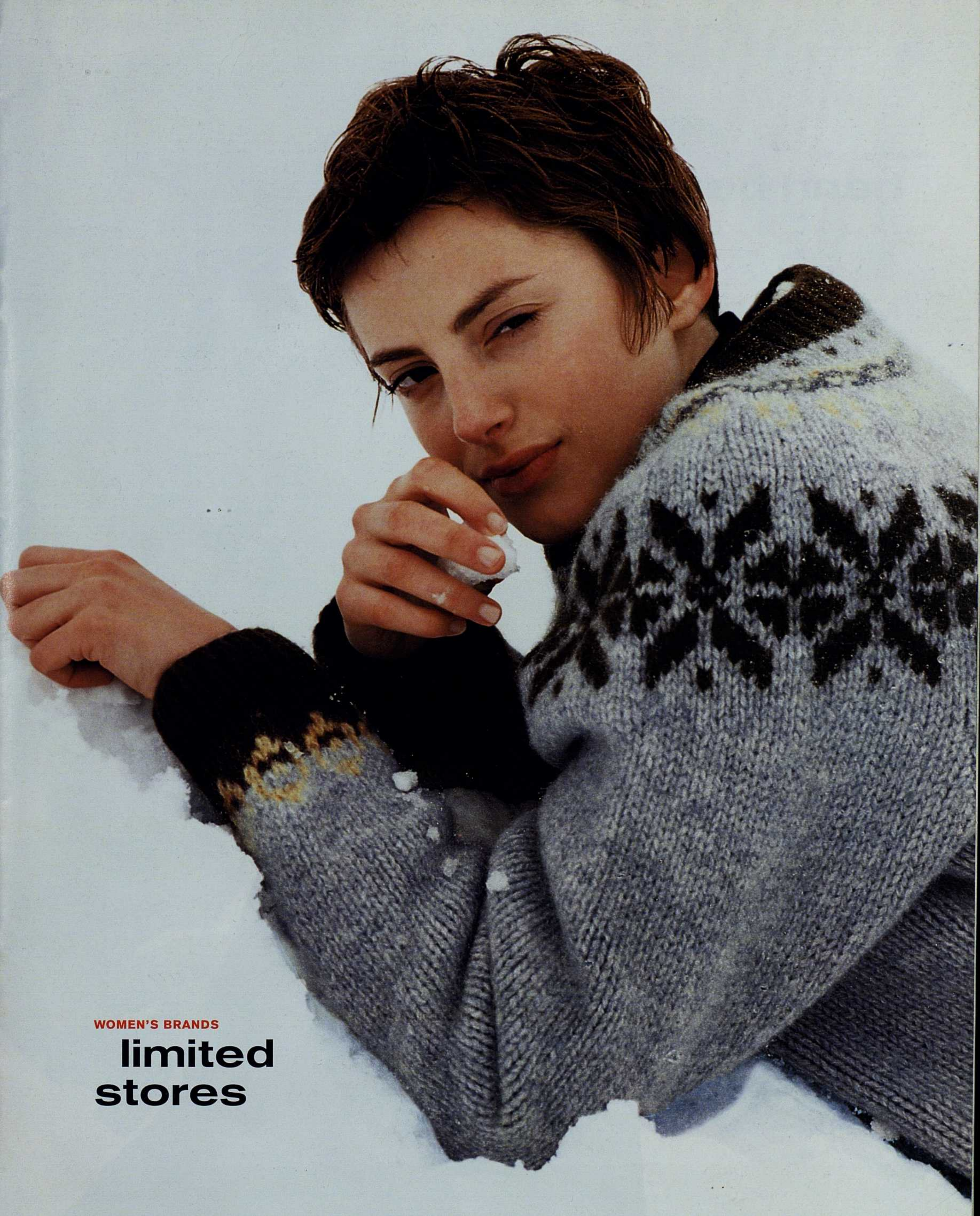
galyan's trading company



EMERGING BRANDS

limited too


INTIMATE BRANDS
victoria's
secret
stores



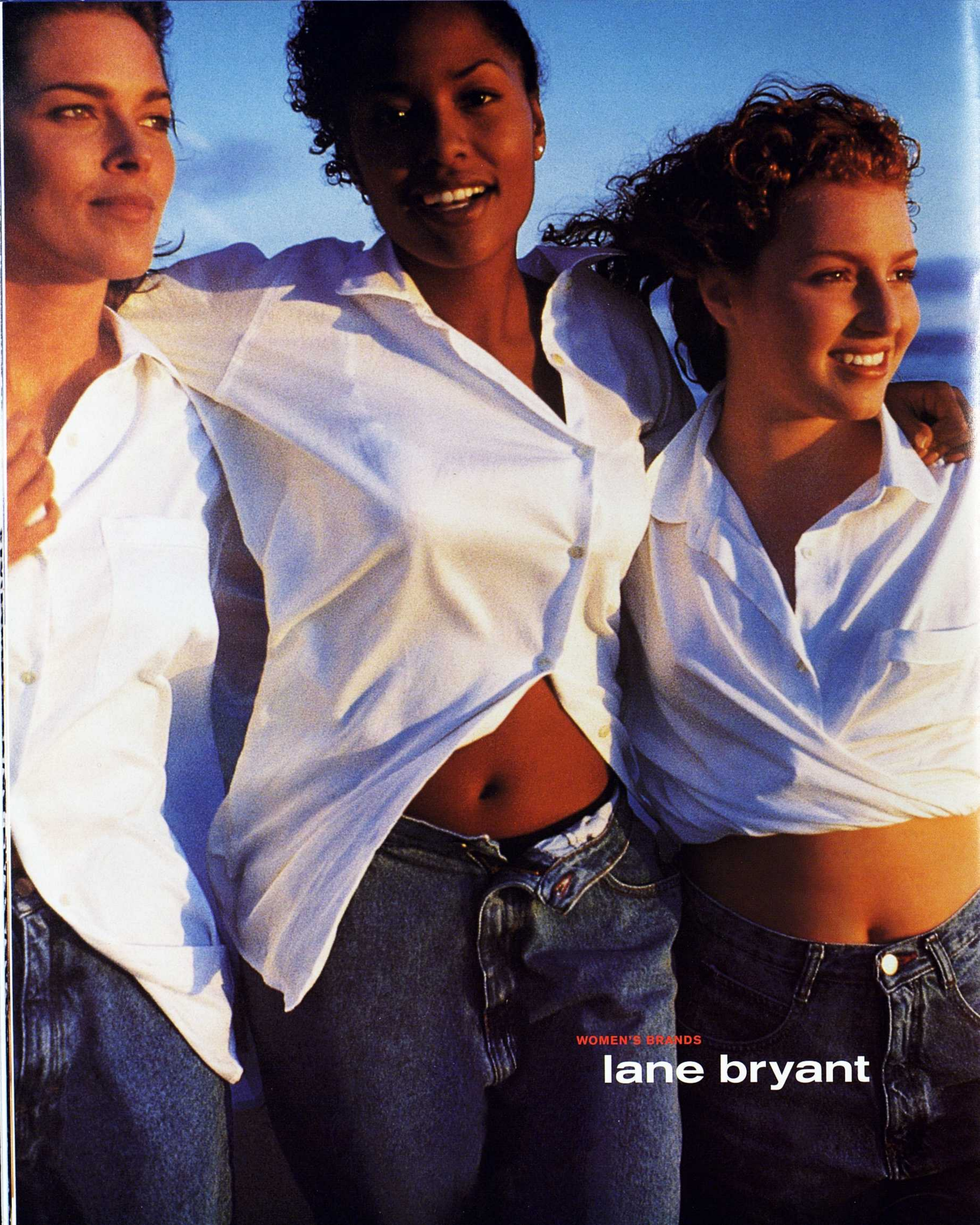
WOMEN'S BRANDS

limited stores

WOMEN'S BRANDS

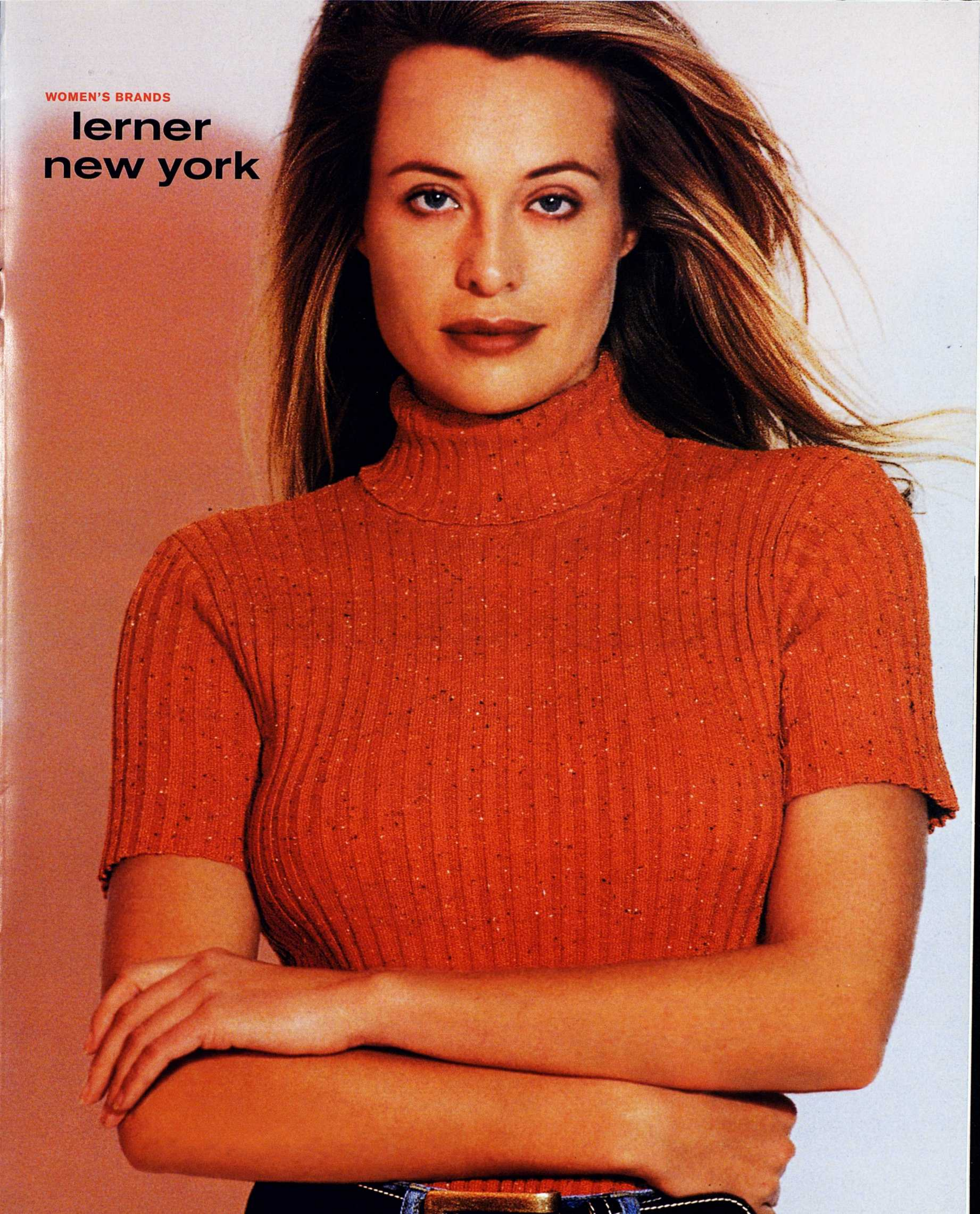
henri bendel

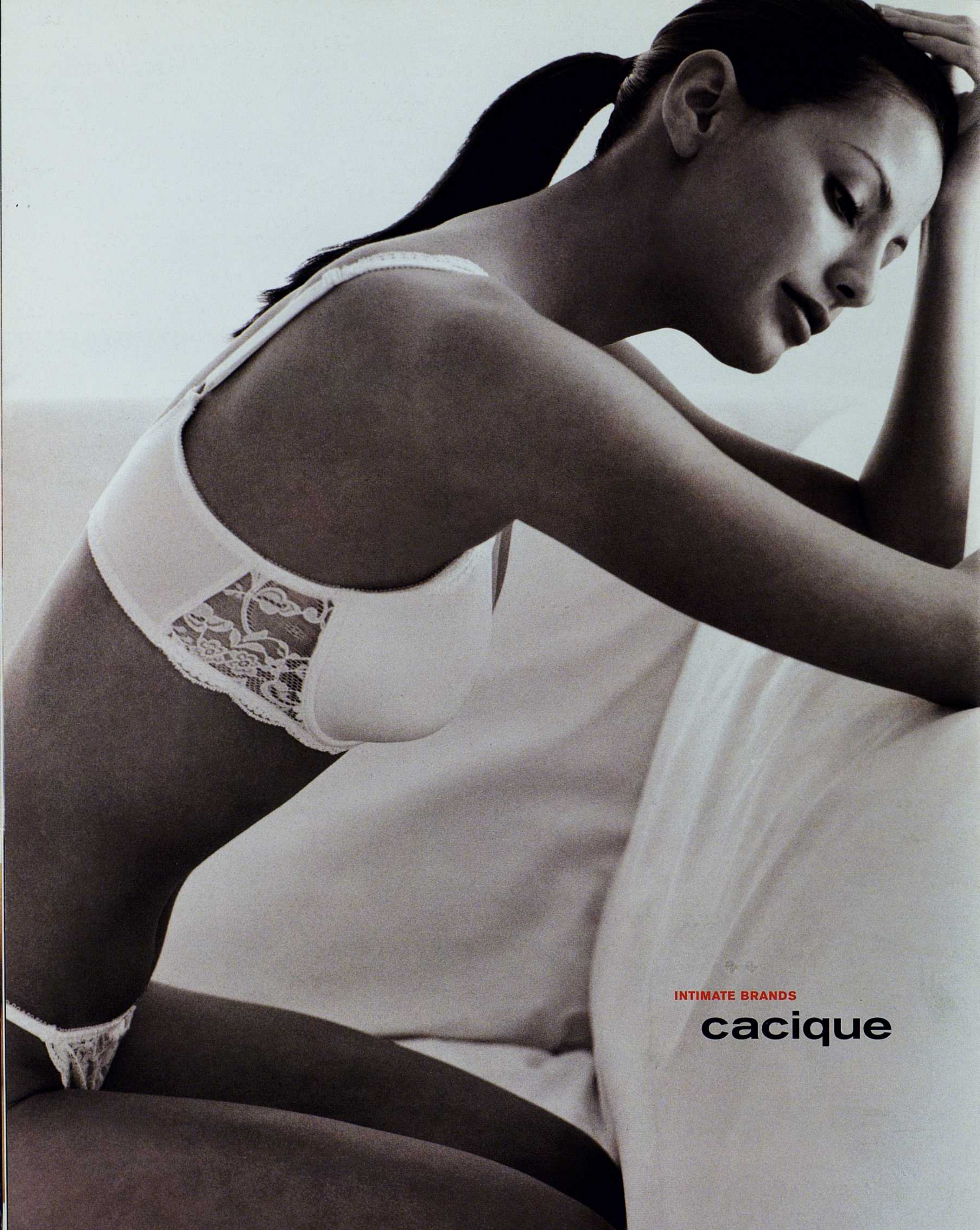

EMERGING BRANDS
structure


WOMEN'S BRANDS
lane bryant

WOMEN'S BRANDS

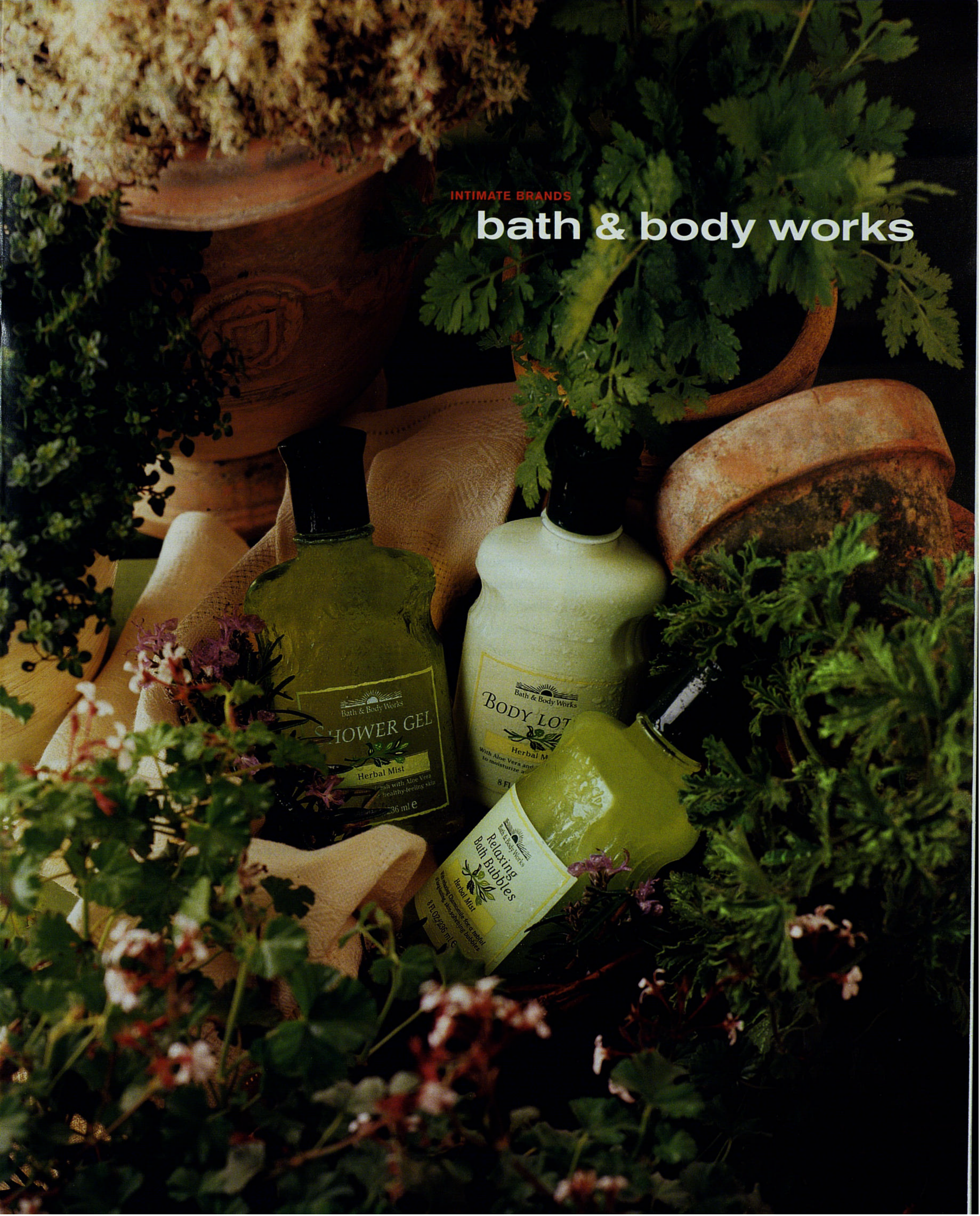
lerner new york

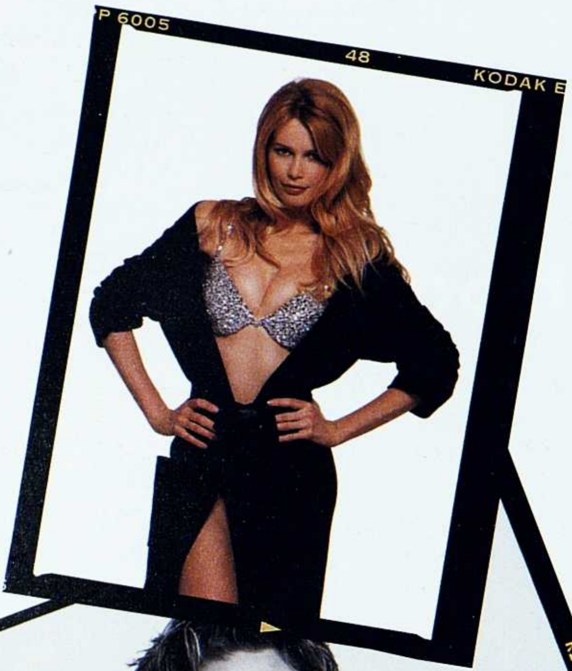


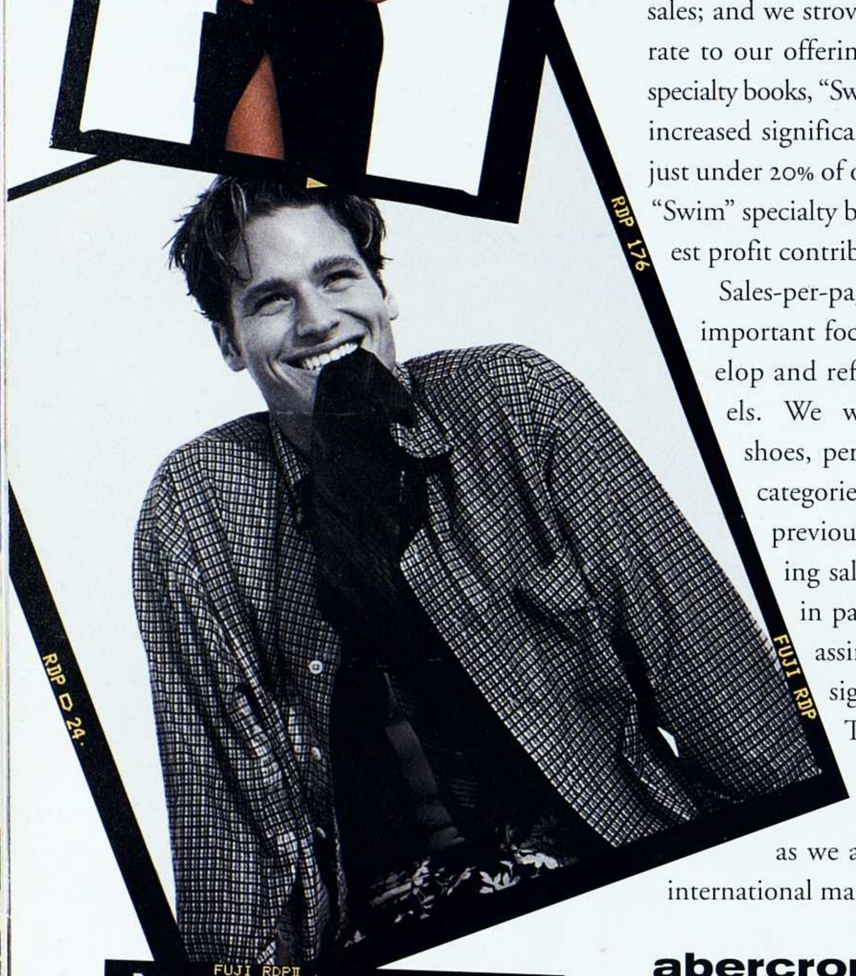

INTIMATE BRANDS
cacique

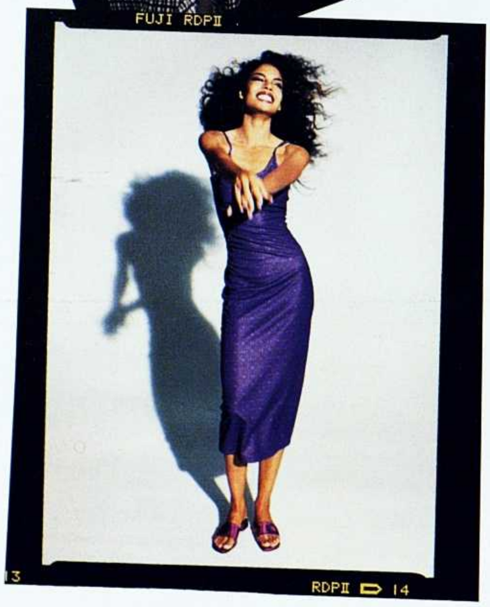
INTIMATE BRANDS

bath & body works









INTIMATE BRANDS

victoria's secret catalogue

The industry-leading catalogue of women's intimate and fashion apparel.

Sales in 1996 were below our expectations—up just 3%. However, we concentrated upon two important indicators of growth. First, we focused on sales-per-page productivity, the catalogue equivalent of same-store sales; and we strove to improve the response rate to our offering. Sales generated by our specialty books, "Swim," "Country" and "City," increased significantly and now account for just under 20% of our total. In particular, our "Swim" specialty books have one of the highest profit contribution margins.

Sales-per-page productivity will be an important focus as we continue to develop and refine our circulation models. We will further develop the shoes, personal care and accessories categories, which increased in the previous year, as well as our clothing sales, specifically sportswear, in part through the hiring and assimilation of in-house design and production teams. The establishment of a Japanese phone center will help develop that market, as we also plan entry into other international markets.

abercrombie & fitch

Quality, casual, classic American sportswear brand, targeted to the young, hip customer.

We met our 1996 financial goals by achieving a higher operating income rate through volume growth and merchandise margin. With our eighteenth consecutive quarter of bottom-line profit improvement, we successfully rolled out new merchandise and categories consistent with our powerful lifestyle brand. Additionally in 1996, we met our goal of opening twenty-nine stores. Our successes led to an Initial Public Offering, with Abercrombie & Fitch becoming a publicly traded New York Stock Exchange company on September 26, 1996.

We are carrying our strong momentum into 1997. We will continue to gain share of the huge women's apparel market by broadening existing merchandise categories and enriching the brand with newness, excitement and therefore increasing productivity. We will open twenty-eight new stores in 1997, consistent with our disciplined growth rate.

WOMEN'S BRANDS

express

A lifestyle brand offering hot new international fashion to young women.

1996 was very disappointing for Express, with a significant earnings decline. The all-important fourth quarter was particularly lackluster. We are now aggressively returning Express to its youthful roots. The ones that made it the hottest fashion growth business of the past ten years.

Express is targeted to young women in their early twenties. It is young and spirited, fashions of good taste and quality, with a large potential customer base. We expect the Fall '97 assortment to reflect the repositioning of the Express brand.

EMERGING BRANDS

galyan's trading company

The "coolest" destination in retailing for sports enthusiasts and "wannabes" of all ages.

In our first full year within The Limited, Inc., we exceeded our financial goals and sales expectations while adding three new stores, averaging nearly 100,000 square feet each—two in the Minneapolis/St. Paul area, and the third in Kansas City.

We expect the momentum to continue in 1997, as we plan to open two to three new stores, including our third in the Minneapolis area and our second in Columbus. The prototype Columbus store will introduce an exciting interactive concept. In addition, we will open a new, state-of-the-art Distribution Center in Indianapolis this Spring.

EMERGING BRANDS

limited too

The complete American casual lifestyle store for girls to age fourteen.

In 1996, we began to develop branded apparel using an in-house design team; narrowed our base of suppliers and vendors to ensure high quality standards; and focused on fashion basics. By delivering positive comparable store sales and increasing merchandising margin, we returned to profitability in the Fall season.

We expect to continue the profitability momentum in 1997 by improving sales productivity through an expanded assortment of products for girls only, by developing a comprehensive, proprietary assortment of American casual apparel, lifestyle, loungewear, and Girl Care products—thus becoming the leading destination for fashion-aware girls.

INTIMATE BRANDS

victoria's secret stores

The most successful brand of elegant intimate apparel, foundations and related products for women.

Victoria's Secret Stores achieved a 13% growth in sales in 1996 and increased operating profit by over 14%. Core product category efforts included the continued success of the "under*ware*" line of basic cotton separates. Perfect Silhouette, a unique seamless bra, was launched during the year, and quickly became one of the fastest-selling bras in Victoria's Secret history. Victoria's Secret Bath & Fragrance is becoming an increasingly significant part of the business, as sales and profits accelerated in 1996. Solid progress was also made in developing the VS hosiery business.

We believe 1997 offers significant opportunities to build brand equity and increase gross margins by delivering fashion right merchandise and integrating design and production capabilities. Reflective of our goal to dominate the bra business, one new bra launch is planned for 1997. Other brand extensions include a further expansion of the "under*ware*" assortment, a Signature line of distinctive heart logo items such as lingerie, home accessories and gifts, and a rollout of the Special Occasion line of luxurious, giftable items. We expect to continue the rapid growth of Victoria's Secret Bath & Fragrance by improving sales force productivity and broadening assortment and presentation. We plan to open sixty-five new stores, and remodel another twenty-five, in 1997.

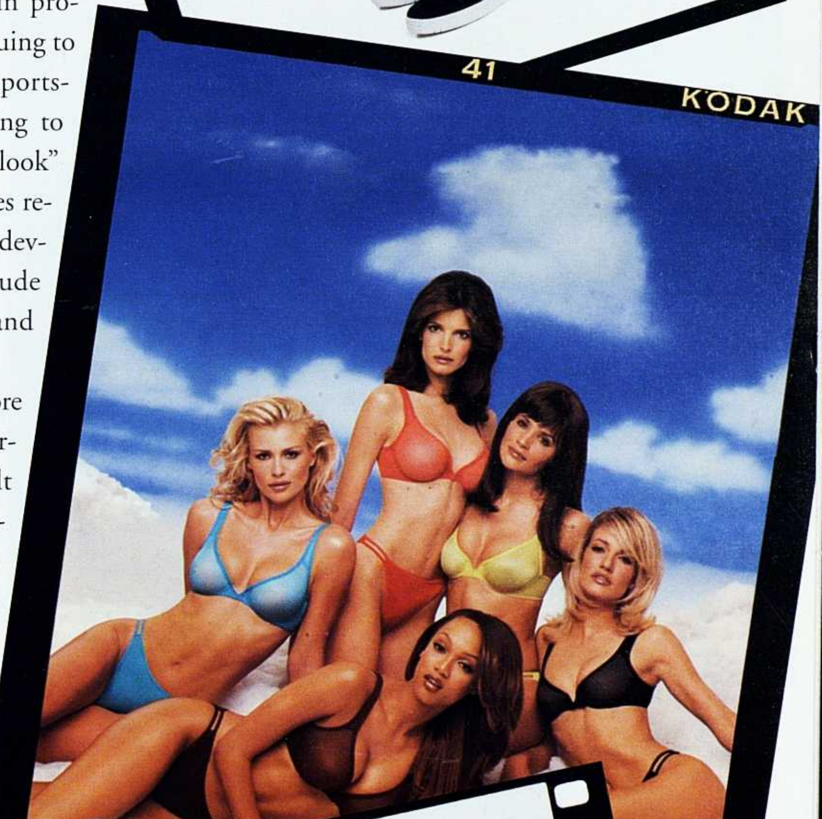
WOMEN'S BRANDS

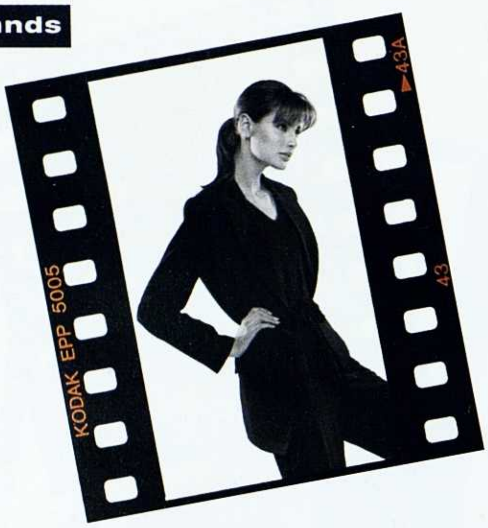
limited stores

Casual American lifestyle fashion for women in their twenties and thirties who desire great fashion and comfort.

The year 1996 was marked by comparable store increases of 3%, significant profit improvement and substantial merchandise margin progress. We did this by continuing to build on our strength in sportswear tops; and by beginning to develop a consistency in "look" and quality as Limited Stores revamped its entire product development process to include complete in-house design and production teams.

We believe comparable store sales gains and improved merchandise margin will result from the efforts of our in-house design, production and merchandising teams in 1997. These teams will also build a substantial active business that encompasses all aspects of sportswear and outerwear, and we will continue to source through focused, strategic vendor alliances. Increasing our bench strength in key positions throughout the Company—both in the home office and in the field—is another important objective for the year.





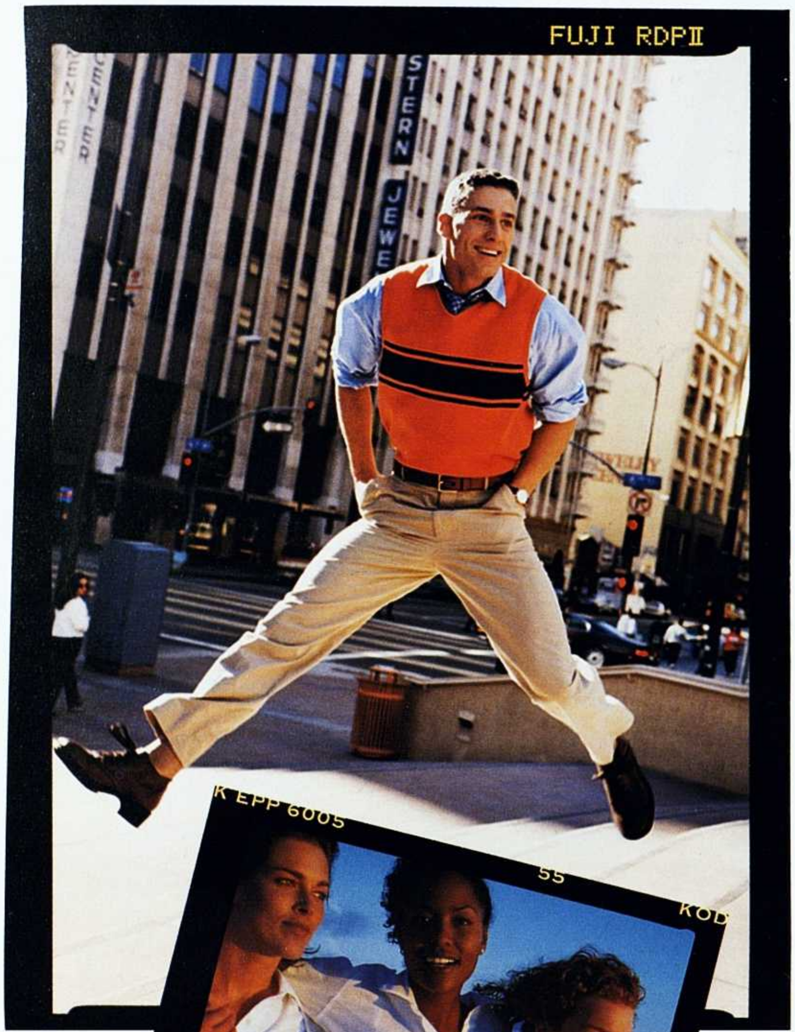
WOMEN'S BRANDS

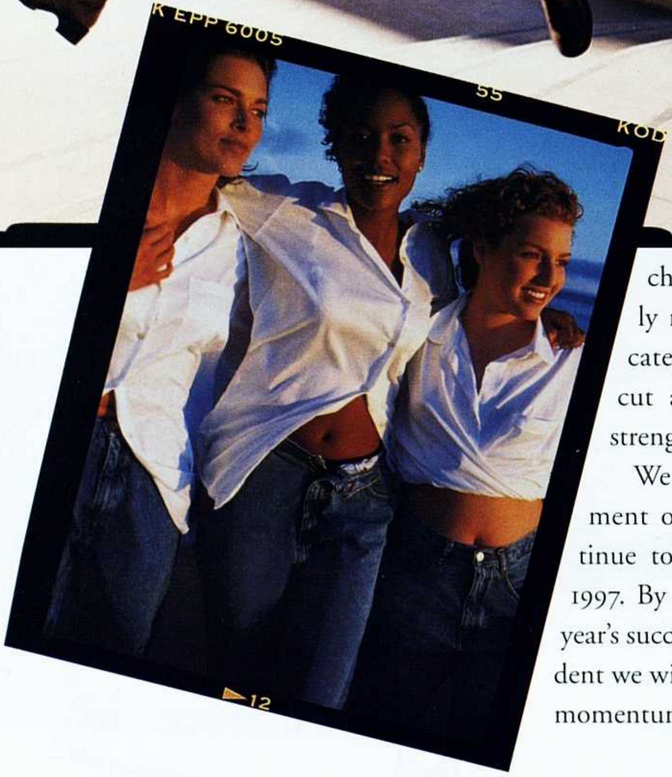
henri bendel

Fashion apparel, cosmetics, accessories and gifts for today's modern woman in her mid-thirties in a higher-income household.

During 1996, Henri Bendel had disappointingly flat sales and no growth in margin. In the Fall we established a design studio with top talent, and product is expected to flow by mid-1997. We also opened two additional stores, increasing selling square footage by 28%.

In 1997, we plan to grow sales and merchandise margins by improved profit planning and focused assortments for the Bendel target customer. Through the use of in-house design, we will roll out new merchandise concepts consistent with the Henri Bendel brand position.





EMERGING BRANDS

structure

Authentic, American-style sportswear with a creative edge. Our target customer is in his mid-twenties—urban, active, young and creative.

In 1996, Structure dramatically improved its profitability. We implemented a more deliberate pricing strategy, improved merchandise margins, and successfully returned our emphasis to "basic" categories such as casual pants and cut and sewn, traditional Structure strengths.

We believe that the further development of the Structure brand will continue to build sales and profitability in 1997. By building on the strengths of last year's success in key categories, we are confident we will be able to continue our upward momentum.

WOMEN'S BRANDS

lane bryant

The key fashion destination for the large-size customer (size 14–28); offering sportswear, suit separates, and dresses as well as intimate apparel, hosiery and accessories.

In 1996, Lane Bryant returned to its historic merchandise margin rate—an increase of 5%—by carrying leaner inventories, being less promotional and delivering higher initial markup.

In 1997, we will drive sales and margin by building our strengths—knit tops, sweaters and pants—while we increase our market share in dresses. We will offer fashionable apparel with the best fit, quality and value in large-size women's apparel. In addition, we will begin an aggressive store refurbishment program and continue to close unprofitable stores.

WOMEN'S BRANDS

lerner new york

Fashionable sportswear for the value-minded customer.

In 1996, Lerner New York was able to exceed its goal of restoring operating income to 1993 levels by better than 10%. Additionally, through concentration on traditionally strong categories such as denim and related products, as well as focusing on opportunities such as accessories, we were able to increase our sales per store at historically high margins. We have focused on changing our assortments more frequently and hope to implement this even more successfully as we integrate our new design team into the process. In terms of real estate, we exceeded our goal of reducing excess square footage by shedding 400,000 square feet during 1996.

Our design team, fully operational in 1997, will deliver a more cohesive merchandise assortment and expand the NY & CO label to all categories to leverage brand acceptance. We will continue to reduce excess square footage through downsizing and closing poorly performing stores that are not consistent with our brand image, while also developing a renovation program to update our fleet. These initiatives will play an impor-

tant role in increasing margins and operating income.

INTIMATE BRANDS

cacique

Uniquely designed, high-quality lingerie for the elegant, intelligent and sophisticated woman, aged twenty-five and up.

In 1996, Cacique had comparable store sales gains of 8%—achieved in part through a major, innovative key item, the T-shirt Bra. A quality assurance system was launched to create manufacturing and quality standards that will ensure a finished product of consistent fit, comfort, and quality.

Producing comparable store sales gains and continued merchandise margin improvement are two goals for 1997. We will achieve this by building a business that is integrated from concept to consumer by establishing a design studio to create a unique product line of high-quality, elegant, comfortable intimate apparel.

INTIMATE BRANDS

bath & body works

Healthy, natural, good-for-you personal care products and gifts from America's heartland.

We were able to achieve record sales growth of 59% in part because of our success in opening over 250 stores and increasing our square footage by over 60%. Bolstered by a significant level of sales from new products, we achieved industry-leading comparable store sales increases of 11% for the year. Importantly, the business also achieved its objective of maintaining its operating income rate in excess of 25%.

We expect our sales to approach $1 billion in 1997; we plan to continue our focus on delivering unparalleled product performance, consistent excellence in product and package quality and significant product newness. Product introductions will focus on both core categories and the huge opportunities that exist in areas such as personal care products, which leverage daily usage and strong repeat purchase. The success of Holiday 1996 confirmed our confidence that gift sets can be a year-round business.

support businesses

MAST INDUSTRIES

Mast Industries, Inc. is one of the world's leading international contract manufacturers, importers and distributors of apparel for men, women and children. Product lines range from sportswear and ready-to-wear to lingerie. Mast delivers over 100 million garments a year to The Limited, Inc. retail and catalogue divisions.

LIMITED DISTRIBUTION SERVICES

The purpose of Limited Distribution is to design and implement operations that will provide the retail businesses with the most effective and efficient delivery operations available. Limited Distribution Services will have achieved its objective if each of its customers believes that it has been an asset in helping them achieve their goals.

LIMITED REAL ESTATE

Responsible for locating and leasing all store sites for retail businesses of The Limited, Inc., Intimate Brands, Inc. and Abercrombie & Fitch, Limited Real Estate continually searches for new and exciting retail environments where our brands can be showcased.

LIMITED STORE PLANNING

Limited Store Planning's mission is to create the most innovative, successful stores in the retail business. It employs talented design, engineering, architectural, construction, purchasing and finance associates—highly focused teams designing and building leading-edge retail space.

GRYPHON

Gryphon is one of the world's leading producers of cosmetics, fragrances and personal care products. This year, Gryphon will create, package and deliver almost 300 million units of over 1,000 different products. Responsible for supplying Victoria's Secret Bath & Fragrance products, Bath & Body Works products, and new products for Abercrombie & Fitch in 1996, Gryphon has similar plans for 1997, including the new Limited Too lines.

1996 sales totaled $8.6 billion, with operating income of $636 million

limited
96 financials

FINANCIAL SUMMARY

Thousands except per share amounts, ratios and store and associate data

summary of operations	1996	●▲■ 1995	1994	● 1993	1992	▲ 1991	▲ 1990	●■ 1989	▲ 1988	1987	1986
Net Sales	$8,644,791	$7,881,437	$7,320,792	$7,245,088	$6,944,296	$6,149,218	$5,253,509	$4,647,916	$4,070,777	$3,527,941	$3,142,696
Gross Income	$2,496,579	$2,087,532	$2,114,363	$1,958,835	$1,990,740	$1,793,543	$1,630,439	$1,446,635	$1,214,703	$992,775	$961,827
Operating Income	$636,067	$613,349	$798,989	$701,556	$788,698	$712,700	$697,537	$625,254	$467,418	$408,872	$438,229
Operating Income as a Percentage of Sales	7.4%	7.8%	10.9%	9.7%	11.4%	11.6%	13.3%	13.5%	11.5%	11.6%	13.9%
Income Before Income Taxes	$675,208	$1,184,511	$744,343	$644,999	$745,497	$660,302	$653,438	$573,926	$396,136	$378,188	$394,780
Net Income	$434,208	$961,511	$448,343	$390,999	$455,497	$403,302	$398,438	$346,926	$245,136	$235,188	$227,780
Net Income (Excluding Gain on Sale of Subsidiary Stock)	$316,030	$312,044	$448,343	$390,999	$446,380	$403,302	$398,438	$346,926	$245,136	$235,188	$227,780
Net Income as a Percentage of Sales	◆ 3.7%	◆ 4.0%	6.1%	5.4%	◆ 6.4%	6.6%	7.6%	7.5%	6.0%	6.7%	7.2%
per share results											
Net Income	$1.54	$2.68	$1.25	$1.08	$1.25	$1.11	$1.10	$.96	$.68	$.62	$.60
Net Income (Excluding Gain on Sale of Subsidiary Stock)	$1.12	$.87	$1.25	$1.08	$1.23	$1.11	$1.10	$.96	$.68	$.62	$.60
Dividends	$.40	$.40	$.36	$.36	$.28	$.28	$.24	$.16	$.12	$.12	$.08
Book Value	$7.09	$9.01	$7.72	$6.82	$6.25	$5.19	$4.33	$3.45	$2.64	$2.04	$2.07
Weighted Average Shares Outstanding	282,053	358,371	358,601	363,234	363,738	363,594	362,044	361,288	360,186	376,626	376,860
other financial information											
Total Assets	$4,120,002	$5,266,563	$4,570,077	$4,135,105	$3,846,450	$3,418,856	$2,871,878	$2,418,486	$2,145,506	$1,929,477	$1,726,544
Return on Average Assets	◆ 7%	◆ 6%	10%	10%	◆ 12%	13%	15%	15%	12%	13%	14%
Working Capital	$638,204	$2,018,960	$1,750,111	$1,513,181	$1,063,352	$1,084,205	$884,004	$685,524	$567,639	$629,783	$586,827
Current Ratio	1.7	3.5	3.2	3.1	2.5	3.1	2.8	2.4	2.2	2.9	2.7
Capital Expenditures	$409,260	$374,374	$319,676	$295,804	$429,545	$523,082	$428,844	$318,427	$288,972	$283,590	$196,487
Long-Term Debt	$650,000	$650,000	$650,000	$650,000	$541,639	$713,758	$540,446	$445,674	$517,952	$681,000	$417,420
Debt-to-Equity Ratio	34%	20%	24%	27%	24%	38%	35%	36%	55%	93%	53%
Shareholders' Equity	$1,922,582	$3,201,041	$2,760,956	$2,441,293	$2,267,617	$1,876,792	$1,560,052	$1,240,454	$946,207	$729,171	$781,542
Return on Average Shareholders' Equity	◆ 16%	◆ 10%	17%	17%	◆ 22%	23%	28%	32%	29%	31%	38%
Comparable Store Sales Increase (Decrease)	3%	(2%)	(3%)	(1%)	2%	3%	3%	9%	8%	3%	18%
stores and associates at end of year											
Total Number of Stores Open	5,633	5,298	4,867	4,623	4,425	4,194	3,760	3,344	3,497	3,115	2,682
Selling Square Feet	28,405,000	27,403,000	25,627,000	24,426,000	22,863,000	20,355,000	17,008,000	14,374,000	14,296,000	12,795,000	11,320,000
Number of Associates	123,100	106,900	105,600	97,500	100,700	83,800	72,500	63,000	56,700	50,200	43,200

● *Includes the results of companies disposed of up to the disposition date.*
▲ *Includes the results of companies acquired subsequent to the date of acquisition.*
■ *Fifty-three-week fiscal year.*
◆ *Excludes the effect on net income of the gain on sale of subsidiary stock of $118,178 in 1996, $649,467 in 1995 and $9,117 in 1992.*

MANAGEMENT'S DISCUSSION AND ANALYSIS

results of operations

Net sales for the thirteen-week fourth quarter of 1996 grew 7% to $2.966 billion from $2.771 billion for the fourteen-week fourth quarter a year ago. Net income was $213 million, and earnings per share increased 30% to $0.78 versus $0.60 on a pro-forma basis in 1995, excluding the 1995 gain on sale of subsidiary stock. In the fourth quarter of 1995, the Company recorded a gain on sale of subsidiary stock of $36.0 million, or $0.10 per share, resulting from the exercise of underwriters' over-allotment options on an additional 2.7 million shares over the original 40 million shares issued from the Intimate Brands, Inc. ("IBI") third quarter initial public offering.

Net sales for the fifty-two-week fiscal year ended February 1, 1997 increased 10% to $8.645 billion from sales of $7.881 billion for the fifty-three-week fiscal year ended February 3, 1996. Net income (excluding gains on sales of subsidiary stock) was $316 million, or $1.12 per share, compared to pro-forma $0.88 per share last year, an increase of 27%. The Company also recorded gains of $118.2 million and $649.5 million, or $0.42 and $1.81 per share, resulting from the initial public offerings of a 15.8% interest in Abercrombie & Fitch Co. ("A&F") and a 16.9% interest in IBI during the Fall seasons of 1996 and 1995, respectively.

Business highlights include the following:

- IBI, led by strong performances at Bath & Body Works and Victoria's Secret Stores, demonstrated market leadership with an earnings per share increase of 24% over last year's pro-forma results, excluding a $12 million special and nonrecurring charge for the 1997 sale of Penhaligon's.
- Lerner New York delivered a fivefold increase in operating income for the year, on a comparable store sales increase of 8%.
- Merchandise improvements and expense controls contributed to operating income gains at Limited Stores and Lane Bryant.
- A&F increased operating income by 93% for the year and 68% for the fourth quarter. Comparable store sales were up 13% for the year.
- Limited Too experienced a significant improvement in operating income and an 8% comparable store sales gain. It was also a dramatic turnaround year for Structure, which produced significant bottom-line improvement with comparable store sales up 7%.

The Company believes that the pro-forma financial information as displayed below provides a better comparison of financial results on a continuing basis. During the second half of 1995 and the first three quarters of 1996, the Company entered into a series of transactions: 1) the 1995 initial public offering of a 16.9% interest in IBI; 2) the fourth quarter 1995 sale of a 60% interest in the Company's previously wholly-owned credit card bank, World Financial Network National Bank ("WFNNB"); 3) a reduction in outstanding shares reflecting the Company's 85 million share repurchase via a self-tender consummated effective March 17, 1996; and 4) the initial public offering of a 15.8% interest of A&F during the third quarter of 1996. To aid in the analysis of fourth quarter and fiscal year 1996 financial information as compared to the respective periods in 1995, certain pro-forma adjustments, including the tax impact, have been made to 1995 results as follows: 1) the 1995 general, administrative and store operating expenses have been adjusted for the fourth quarter 1995 sale of a 60% interest in WFNNB, as if the sale had been consummated at the beginning of 1995; 2) the 1995 statement of income has been adjusted to reflect the minority interest arising from the IBI transaction as if it had occurred at the beginning of 1995; and 3) weighted average shares outstanding have been reduced to reflect the 85 million share repurchase as if it had occurred at the beginning of 1995.

Summary income information is presented below (thousands except per share data):

fourth quarter	1995 PRO-FORMA SUMMARY As Reported February 3, 1996	Pro-forma Adjustments	Pro-forma February 3, 1996	1996 AS REPORTED February 1, 1997
Net sales	$2,771,365	—	$2,771,365	$2,966,261
Gross income	808,212	—	808,212	979,755
General, administrative and store operating expenses	(464,311)	● $(26,497)	(490,808)	(555,416)
Special and nonrecurring items, net	1,314	—	1,314	(12,000)
Operating income	345,215	(26,497)	318,718	412,339
Interest expense	(18,276)	—	(18,276)	(19,461)
Other income, net	11,693	—	11,693	11,138
Minority interest	(22,374)	—	(22,374)	(28,623)
Gain on sale of subsidiary stock	35,967	—	35,967	—
Income before income taxes	352,225	(26,497)	325,728	375,393
Provision for income taxes	136,000	■ (11,000)	125,000	162,000
Net income	$216,225	$(15,497)	$200,728	$213,393
Net income per share	$.60		◆ $.74	$.78
Net income per share exclusive of gain on sale of subsidiary stock	$.50		◆ $.60	$.78
Weighted average shares outstanding	357,626		◆ 272,626	272,098

(Chart continued on next page)

(Chart continued from previous page)

year	1995 PRO-FORMA SUMMARY			1996 AS REPORTED
	As Reported February 3, 1996	Pro-forma Adjustments	Pro-forma February 3, 1996	February 1, 1997
Net sales	$7,881,437	—	$7,881,437	$8,644,791
Gross income	2,087,532	—	2,087,532	2,496,579
General, administrative and store operating expenses	(1,475,497)	● $(102,910)	(1,578,407)	(1,848,512)
Special and nonrecurring items, net	1,314	—	1,314	(12,000)
Operating income	613,349	(102,910)	510,439	636,067
Interest expense	(77,537)	—	(77,537)	(75,363)
Other income, net	21,606	—	21,606	41,972
Minority interest	(22,374)	▲ (12,264)	(34,638)	(45,646)
Gain on sale of subsidiary stock	649,467	—	649,467	118,178
Income before income taxes	1,184,511	(115,174)	1,069,337	675,208
Provision for income taxes	223,000	■ (44,000)	179,000	241,000
Net income	$961,511	$(71,174)	$890,337	$434,208
Net income per share	$2.68		◆ $3.26	$1.54
Net income per share exclusive of gain on sale of subsidiary stock	$.87		◆ $.88	$1.12
Weighted average shares outstanding	358,371		◆ 273,371	282,053

● *Sale of a 60% interest in WFNNB as if the sale was consummated at the beginning of 1995.*

▲ *Minority interest in IBI as if the transaction was consummated at the beginning of 1995.*

■ *Tax effect of pro-forma adjustments.*

◆ *Net income per share and weighted average shares outstanding have been adjusted for the impact of the self-tender for 85 million shares effective March 17, 1996, as if it was consummated at the beginning of 1995.*

net sales

Thirteen-week fourth quarter 1996 sales as compared to sales for the fourteen-week fourth quarter 1995 increased 7% to $2.966 billion due to a 9% increase in sales attributable to new and remodeled stores and a 3% increase in comparable store sales, offset by a 5% decrease due to the fifty-third week in 1995. Fourteen-week fourth quarter 1995 sales as compared to sales for the thirteen-week fourth quarter 1994 increased 9% to $2.771 billion due to a 9% increase in sales attributable to new and remodeled stores and a 4% increase due to the fifty-third week, offset by a 4% decrease in comparable store sales resulting from a very difficult Holiday and promotional retail environment.

The 1996 retail sales increase is attributable to an 8% increase in sales due to the net addition of new and remodeled stores and a 3% increase in comparable store sales, offset by a 1% decrease due to the fifty-third week in 1995. The Company added 470 new stores in 1996, remodeled 252 stores and closed 135 stores for a net addition of 335 stores representing over 1.0 million square feet of new retail selling space. Average sales productivity increased 5% to $285 per square foot.

1996 net sales increased 10%, operating income increased 25%

In 1996, IBI accounted for 63% of the annual sales increase, posting a $480 million sales increase over the prior year due to the net addition of 316 stores representing over 817,000 selling square feet, a 7% increase in comparable store sales and an 11% increase in catalogues mailed by Victoria's Secret Catalogue. Sales at the women's businesses in 1996 were flat to 1995, primarily due to flat comparable store sales. Disappointing results at Express, which experienced a 6% decline in comparable store sales, were offset by improved results at Lerner New York and Limited Stores, which had 8% and 3% increases in comparable store sales.

In addition, the overall sales increase for the Company included strong sales increases at Structure, Abercrombie & Fitch Co. and Limited Too, which experienced 7%, 13% and 8% increases in comparable store sales.

The 1995 retail sales increase is attributable to a 9% increase in sales due to the net addition of new and remodeled stores and a 1% increase due to the fifty-third week, which was partially offset by a 2% decline in comparable store sales. The Company added 504 new stores in 1995, acquired 6 stores via the purchase of Galyan's Trading Company, Inc. ("Galyan's"), remodeled 284 stores and closed 79 stores for a net addition of 431 stores representing approximately 1.8 million square feet of new retail selling space. Average sales productivity increased slightly to $272 per square foot.

In 1995, $409 million, or 73%, of the sales increase came from the IBI businesses. These businesses added collectively 256 net new stores representing over 800,000 square feet and experienced a comparable store sales increase of 1%. Catalogue sales increased by $92 million, or 16%, due to a 25% increase in catalogue mailings. The balance of the sales increase came from Structure, Abercrombie & Fitch Co. and Limited Too, as sales from the women's businesses were essentially flat to 1994.

The following summarized financial data compares 1996 to the comparable periods for 1995 and 1994:

net sales *(millions)*	1996	1995	1994	% Change 1996–95	% Change 1995–94
Express	$1,386	$1,445	$1,387	(4%)	4%
Lerner New York	1,045	1,005	1,019	4%	(1%)
Lane Bryant	905	903	959	—	(6%)
Limited Stores	855	850	869	1%	(2%)
Henri Bendel	91	91	84	—	8%
Total Women's Brands	$4,282	$4,294	$4,318	—	(1%)
Structure	660	576	555	15%	4%
Limited Too	259	214	174	21%	23%
Galyan's Trading Co. *(since 7/2/95)*	108	45	—	—	—
Other	4	—	—	—	—
Total Emerging Brands	$1,031	$835	$729	23%	15%
Victoria's Secret Stores	1,450	1,286	1,181	13%	9%
Victoria's Secret Catalogue	684	661	569	3%	16%
Bath & Body Works	753	475	260	59%	83%
Cacique	88	80	92	10%	(13%)
Other	22	15	6	—	—
Total Intimate Brands, Inc.	$2,997	$2,517	$2,108	19%	19%
Abercrombie & Fitch Co.	$335	$235	$166	43%	42%
Total Net Sales	$8,645	$7,881	$7,321	10%	8%
operating income *(millions)*					
Women's Brands	$64	● $54	$244	19%	(78%)
Emerging Brands and Other	68	▲ 149	▲ 203	(54%)	(27%)
Intimate Brands, Inc.	■ 458	386	338	19%	14%
Abercrombie & Fitch Co.	46	24	14	92%	71%
Total Operating Income	$636	$613	$799	4%	(23%)

● *1995 includes a special and nonrecurring charge of approximately $48 million, primarily for store closings and downsizings.*

▲ *1995 and 1994 include 100% of WFNNB's operating income of $114 million and $107 million before interest expense versus $4 million, representing 40% of net income of $11 million in 1996; 1995 also includes an approximate gain of $73 million for the sale of a 60% interest in WFNNB, partially offset by $23 million of special and nonrecurring charges representing write-downs to net realizable value of certain assets.*

■ *1996 includes a special and nonrecurring charge of $12 million in connection with the sale of Penhaligon's in early 1997.*

The following summarized financial data compares 1996 to the comparable periods for 1995 and 1994:

comparable store sales	1996	1995	1994	% Change 1996–95	% Change 1995–94
Express	(6%)	(2%)	(9%)		
Lerner New York	8%	(1%)	(10%)		
Lane Bryant	0%	(8%)	2%		
Limited Stores	3%	(4%)	(21%)		
Henri Bendel	(5%)	6%	4%		
Total Women's Brands	0%	(3%)	(9%)		
Structure	7%	(9%)	5%		
Limited Too	8%	(4%)	13%		
Galyan's Trading Co. *(since 7/2/96)*	12%	—	—		
Total Emerging Brands	7%	(8%)	7%		
Victoria's Secret Stores	5%	(1%)	12%		
Bath & Body Works	11%	21%	39%		
Cacique	8%	(20%)	(12%)		
Total Intimate Brands, Inc.	7%	1%	13%		
Abercrombie & Fitch Co.	13%	5%	15%		
Total Comparable Store Sales Increase (Decrease)	3%	(2%)	(3%)		
store data					
Retail Sales Increase Attributable to New and Remodeled Stores	8%	9%	6%		
Retail Sales per Average Selling Square Foot	$285	$272	$270	5%	1%
Retail Sales per Average Store *(thousands)*	$1,453	$1,419	$1,423	2%	—
Average Store Size at End of Year *(square feet)*	5,043	5,172	5,265	(2%)	(2%)
Retail Selling Square Feet *(thousands)*	28,405	27,403	25,627	4%	7%
number of stores					
Beginning of Year	5,298	4,867	4,623		
Opened	470	504	358		
Acquired	—	6	—		
Closed	(135)	(79)	(114)		
End of Year	5,633	5,298	4,867		

gross income

Gross income increased as a percentage of sales to 33.0% for the fourth quarter 1996 from 29.2% for the fourth quarter 1995. The merchandise margin rate (representing gross income before deduction of buying and occupancy costs) increased 3.4%, expressed as a percentage of sales, due principally to improved initial markup and lower markdown rates, as the Company was less price promotional than a year ago. Buying and occupancy costs decreased .4%, expressed as a percentage of sales, primarily due to sales productivity associated with the 3% increase in comparable store sales.

Gross income decreased as a percentage of sales to 29.2% for the fourth quarter of 1995 from 32.8% for the fourth quarter in 1994. Merchandise margins, expressed as a percentage of sales, decreased 2.8%, due principally to higher markdowns in 1995, which were used to clear slow-moving inventories and to stimulate sales in a slow retail environment. Buying and occupancy costs rose .6% as a percentage of sales, primarily due to the lower sales productivity associated with the 5% decrease in comparable store sales at the women's businesses and a 10% comparable store sales decline in the men's and kids' businesses. In addition, higher catalogue costs due to significant price increases in paper and postage, along with increased mailings, exacerbated the buying and occupancy increase.

The Company's 1996 gross income rate increased 2.4% to 28.9% as compared to 1995. The merchandise margin rate increased 1.7% due principally to improved initial markup. Buying and occupancy costs decreased .7% as a percentage of sales, primarily due to sales productivity associated with the 3% increase in comparable store sales.

The 1995 gross income rate of 26.5% fell 2.4% below the rate for 1994. Merchandise margins, expressed as a percentage of sales, decreased 1.7%, due to higher 1995 markdowns principally in the Fall season for the reasons mentioned above. Buying and occupancy costs also increased .7% as a percentage of sales, primarily due to the lower sales productivity associated with the 3% decrease in comparable store sales in the women's businesses and a 5% decline in comparable store sales in the men's and kids' businesses. Again, an increase in paper prices and postage, along with increased catalogue mailings, also increased the buying and occupancy rate.

general, administrative and store operating expenses

General, administrative and store operating expenses increased as a percentage of sales to 18.7% in the fourth quarter of 1996 compared to 17.7% on a pro-forma basis in the fourth quarter of 1995. This increase as a percentage of sales was attributable to a 2.2% rate increase at the IBI businesses and the inability to leverage expenses due to disappointing sales performance at the women's businesses, particularly Express. IBI's increase is primarily the result of the growth of Bath & Body Works in the overall mix of net sales for the Company and investments made in store management and staffing for the Victoria's Secret Bath & Fragrance business. Due to the emphasis on point of sale marketing and sales floor coverage, these IBI businesses have higher general, administrative and store operating expenses as a percentage of net sales, which have been more than offset by higher gross margins. The Company anticipates that these expenses, expressed as a percentage of sales, will increase slightly in 1997, since the IBI businesses, in particular Bath & Body Works, will represent a greater portion of the total Company's sales.

General, administrative and store operating expenses, expressed as a percentage of sales, increased to 16.8% in the fourth quarter of 1995 from 15.4% in 1994, due principally to lower sales productivity.

General, administrative and store operating expenses increased as a percentage of sales to 21.4% in 1996 compared to 20.0% on a pro-forma basis in 1995. This increase was primarily due to the reasons discussed above for the 1996 fourth quarter. These costs, expressed as a percentage of sales and before pro-forma adjustments, increased to 18.7% in 1995 from 18.0% in 1994, due to lower sales productivity.

special and nonrecurring items

As described in Note 2 to the Consolidated Financial Statements, in 1996 the Company recorded a $12 million pre-tax, special and nonrecurring charge in connection with the early 1997 sale of Penhaligon's, a U.K.-based subsidiary of IBI.

In the fourth quarter of 1995, a sale of a 60% interest in the Company's wholly-owned credit card bank, WFNNB, to the New York investment firm of Welsh, Carson, Anderson & Stowe ("WCAS") was completed. The venture, which is 40% owned by the Company, focuses on providing private-label and bank card transaction processing and database management services to the Company's private-label credit card operations and other retailers. WCAS purchased its interest for $135 million and also made a $30 million capital contribution to the venture. The Company recognized a $73.2 million pre-tax gain from the sale of WFNNB.

In addition, WFNNB's outstanding debt to the Company of approximately $1.2 billion was repaid in January 1996 from the proceeds realized from the securitization of WFNNB's credit card receivables.

Along with the sale of the 60% interest in WFNNB, the Company recognized a special and nonrecurring charge during the fourth quarter of 1995 of approximately $71.9 million. Of this amount, $25.8 million was provided for the closing of 26 stores and $19.8 million was provided for the downsizing of 33 stores, primarily at Limited Stores and Lerner New York. These stores were identified based on store profit performance and assessment of the quality of the real estate. The provision included the net present value of rent payments through lease expiration, lease termination payments and approximately $15 million representing the net book value of fixed assets. The remaining charge of approximately $26.3 million represented the write-down to market or net realizable value of certain assets arising from non-operating activities. The net pre-tax gain from these special and nonrecurring items was $1.3 million. At February 1, 1997, substantially all of the planned closings and downsizings were completed, with two closings and downsizings expected to be completed shortly.

operating income

Operating income, as a percentage of sales, was 7.4% in 1996, compared to 6.5% on a pro-forma basis in 1995. This increase was due to increases in gross income, which more than offset the general, administrative and store operating expense rate increase.

The operating income rate was 7.8% and 10.9% for 1995 and 1994. The 1995 rate decrease was due to lower merchandise margins resulting from higher markdowns and the inability to leverage both buying and occupancy costs and higher general, administrative and store operating expenses due to lower sales productivity.

interest expense

	Fourth Quarter		Year		
	1996	1995	1996	1995	1994
Average Daily Borrowings *(in millions)*	$1,039.5	$812.9	$964.3	$887.7	$785.0
Average Effective Interest Rate	7.49%	8.99%	7.82%	8.73%	8.33%

Interest expense increased by $1.2 million in the fourth quarter of 1996 and decreased by $2.2 million for the year. For the quarter, higher borrowing levels increased interest expense by $5.1 million, offset by a $3.9 million decrease in expense resulting from lower interest rates. For the year, lower interest rates decreased expense by $8.8 million, offset by increased expense of $6.6 million due to higher borrowing levels.

other income

The $20.4 million increase in other income for 1996 over 1995 is primarily attributable to the investment of $351.6 million in restricted cash. In addition, approximately $10.5 million of interest income arose from $1.615 billion of temporarily invested funds that were used to consummate the Company's self-tender in March of 1996.

gain on sale of subsidiary stock

As discussed in Note 1 to the Consolidated Financial Statements, in 1996 the Company recognized a $118.2 million gain from the September 1996 initial public offering of a 15.8% interest (8.05 million shares) of A&F. In 1995 the Company recognized a $649.5 million gain which resulted from the initial public offering of 16.9% (42.7 million shares) of the stock of IBI. The gains recorded by the Company were not subject to tax.

acquisition

Effective July 2, 1995, the Company acquired all of the outstanding common stock of Galyan's for $18 million in cash and stock. The Company's financial statements include the results of operations of Galyan's since the acquisition date.

FINANCIAL CONDITION

The Company's balance sheet at February 1, 1997, provides continuing evidence of financial strength and flexibility. The Company's long-term debt-to-equity ratio declined to 34% at the end of 1996 from an adjusted 41% in 1995, and working capital increased 58% to $638 million over adjusted 1995. In March 1996, the Company utilized $1.615 billion of proceeds received from the initial public offering of IBI and the WFNNB transactions to repurchase 85 million shares of its common stock at $19.00 per share in a self-tender offer and set aside $351.6 million of restricted cash to satisfy obligations under the terms of the Contingent Stock Redemption Agreement with its largest shareholder, who did not participate in the self-tender (see Notes 6 and 9). A more detailed discussion of liquidity, capital resources and capital requirements follows.

liquidity and capital resources

Cash provided by operating activities, commercial paper backed by funds available under committed long-term credit agreements, and the Company's capital structure continue to provide the resources to support operations, projected growth, seasonal requirements and capital expenditures. Net cash provided by operating activities totaled $712.1 million, $356.7 million and $361.1 million for 1996, 1995 and 1994 and continued to serve as the Company's primary source of liquidity.

A summary of the Company's working capital position and capitalization follows (thousands):

	1996	• Adjusted 1995	1995	1994
Cash Provided by Operating Activities	$712,069	$356,732	$356,732	$361,078
Working Capital	$638,204	$403,960	$2,018,960	$1,750,111
Capitalization:				
Long-Term Debt	$650,000	$650,000	$650,000	$650,000
Deferred Income Taxes	169,932	152,081	152,081	306,139
Shareholders' Equity	1,922,582	1,586,041	3,201,041	2,760,956
Total Capitalization	$2,742,514	$2,388,122	$4,003,122	$3,717,095
Additional Amounts Available Under Long-Term Credit Agreements	$1,000,000	$1,000,000	$1,000,000	$840,000

• *Adjusted 1995 reflects the impact of the $1.615 billion repurchase of 85 million shares of common stock.*

The Company considers the following to be several measures of liquidity and capital resources:

	1996	• Adjusted 1995	1995	1994
Debt-to-Equity Ratio *(Long-Term Debt Divided by Shareholders' Equity)*	34%	41%	20%	24%
Debt-to-Capitalization Ratio *(Long-Term Debt Divided by Total Capitalization)*	24%	27%	16%	17%
Interest Coverage Ratio *(Income, Excluding the Gain on Sale of Subsidiary Stock, Before Interest Expense, Depreciation, Amortization and Income Taxes Divided by Interest Expense)*	12x	12x	12x	16x
Cash Flow to Capital Investment *(Net Cash Provided by Operating Activities Divided by Capital Expenditures)*	174%	95%	95%	113%

• *Adjusted 1995 reflects the impact of the $1.615 billion repurchase of 85 million shares of common stock.*

The increase in inventories in 1996 was funded principally from an increase in accounts payable and accrued expenses primarily attributable to an increase in merchandise payables. Cash requirements for inventories were lower in 1995 than 1994 due to higher markdowns taken in the Fall to clear slow-moving inventory and end the year with cleaner, fresher inventories. Cash requirements for accounts receivable were greater in 1995 and 1994 due to growth rates in the number of new proprietary credit card holders at WFNNB, a previously wholly-owned subsidiary. Payments approximating $74 million toward IRS assessments contributed to a decrease in income taxes in 1995, along with lower income tax provisions and payments associated with the 1995 earnings decrease (see Note 8).

Investing activities included capital expenditures, primarily for new and remodeled stores. In 1996, $41.3 million was invested in the Alliance Data Services (formerly WFNNB) credit card venture. 1995 reflects the acquisition of Galyan's, the proceeds from the securitization of WFNNB's credit card receivables of $1.2 billion (see Note 2) and the transfer of $351.6 million to a restricted cash account (see Note 6).

Financing activities in 1996 include proceeds from and repayment of $150 million in short-term debt borrowed by A&F and net proceeds of $118.2 million from A&F's initial public offering. Financing activities also included $1.615 billion used to repurchase 85 million shares of the Company's common stock via the self-tender consummated in March 1996. Cash dividends paid in 1996 and 1995 were $.40 per share.

Financing activities in 1995 include proceeds from and repayment of $250 million in short-term debt borrowed by IBI, net proceeds of $788.6 million from the IBI initial public offering and the sale of a 60% interest in WFNNB (see Notes 1 and 2). Financing activities in 1995 also included the repurchase of $55.2 million of the Company's common stock, representing 3.4 million shares. Cash dividends paid increased to $.40 per share in 1995 versus $.36 per share in 1994.

At February 1, 1997, the Company had available $1 billion under its long-term credit agreement. The Company also has the ability to

stores and selling square feet

A summary of stores and selling square feet by business for 1995 and 1996 and goals for 1997 follows:

				Change from	
	Goal-1997	**1996**	**1995**	**1997–96**	**1996–95**
express					
Stores	759	753	737	6	16
Selling Sq. Ft.	4,803,000	4,726,000	4,588,000	77,000	138,000
lerner new york					
Stores	734	784	835	(50)	(51)
Selling Sq. Ft.	5,563,000	5,984,000	6,393,000	(421,000)	(409,000)
lane bryant					
Stores	809	832	828	(23)	4
Selling Sq. Ft.	3,892,000	3,980,000	3,955,000	(88,000)	25,000
limited stores					
Stores	636	663	689	(27)	(26)
Selling Sq. Ft.	3,817,000	3,977,000	4,211,000	(160,000)	(234,000)
henri bendel					
Stores	6	6	4	0	2
Selling Sq. Ft.	113,000	113,000	88,000	0	25,000
structure					
Stores	551	542	518	9	24
Selling Sq. Ft.	2,170,000	2,117,000	1,993,000	53,000	124,000
limited too					
Stores	317	308	288	9	20
Selling Sq. Ft.	995,000	967,000	903,000	28,000	64,000
galyan's trading company					
Stores	12	9	6	3	3
Selling Sq. Ft.	738,000	488,000	250,000	250,000	238,000
victoria's secret stores					
Stores	801	736	671	65	65
Selling Sq. Ft.	3,615,000	3,326,000	3,014,000	289,000	312,000
bath & body works					
Stores	960	750	498	210	252
Selling Sq. Ft.	1,869,000	1,354,000	848,000	515,000	506,000
cacique					
Stores	118	119	120	(1)	(1)
Selling Sq. Ft.	363,000	365,000	366,000	(2,000)	(1,000)
penhaligon's					
Stores	0	4	4	(4)	0
Selling Sq. Ft.	0	2,000	2,000	(2,000)	0
abercrombie & fitch co.					
Stores	153	127	100	26	27
Selling Sq. Ft.	1,218,000	1,006,000	792,000	212,000	214,000
total retail businesses					
Stores	5,856	5,633	5,298	223	335
Selling Sq. Ft.	29,156,000	28,405,000	27,403,000	751,000	1,002,000

offer up to $250 million of additional debt securities under its shelf registration statement authorization.

capital expenditures

Capital expenditures amounted to $409.3 million, $374.4 million and $319.7 million for 1996, 1995 and 1994, respectively, of which $235.7 million, $274.5 million and $201.2 million was for new stores and remodeling and expanding existing stores. In addition, in 1996 the Company expended $42.1 million in connection with the Bath & Body Works distribution center (to be completed June 1997) and $53.1 million on land acquisition and development costs.

The Company anticipates spending $400–$430 million for capital expenditures in 1997, of which $240–$260 million will be for new stores, the remodeling of existing stores and related improvements for the retail businesses. The Company estimates it will spend the balance primarily on the completion of the Bath & Body Works distribution center and land acquisition and development. The Company expects that substantially all 1997 capital expenditures will be funded by net cash provided by operating activities.

The Company intends to add approximately 750,000 selling square feet in 1997, which represents a 3% increase over year-end 1996. It is anticipated that the increase will result from the net addition of approximately 220 stores and the remodeling of approximately 140 stores.

impact of inflation

The Company's results of operations and financial condition are presented based upon historical cost. While it is difficult to accurately measure the impact of inflation due to the imprecise nature of the estimates required, the Company believes that the effects of inflation, if any, on the results of operations and financial condition have been minor.

safe harbor statement under the private securities litigation reform act of 1995

The Company cautions that any forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) contained in this Report, the Company's Form 10-K or made by management of the Company involve risks and uncertainties, and are subject to change based on various important factors. The following factors, among others, in some cases have affected and in the future could affect the Company's financial performance and actual results and could cause actual results for 1997 and beyond to differ materially from those expressed or implied in any such forward-looking statements: changes in consumer spending patterns, consumer preferences and overall economic conditions, the impact of competition and pricing, changes in weather patterns, political stability, currency and exchange risks and changes in existing or potential duties, tariffs or quotas, postal rate increases and charges, paper and printing costs, availability of suitable store locations at appropriate terms, ability to develop new merchandise and ability to hire and train associates.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands except per share amounts)

	1996	1995	1994
Net Sales	$8,644,791	$7,881,437	$7,320,792
Costs of Goods Sold, Occupancy and Buying Costs	(6,148,212)	(5,793,905)	(5,206,429)
Gross Income	2,496,579	2,087,532	2,114,363
General, Administrative and Store Operating Expenses	(1,848,512)	(1,475,497)	(1,315,374)
Special and Nonrecurring Items, Net	(12,000)	1,314	—
Operating Income	636,067	613,349	798,989
Interest Expense	(75,363)	(77,537)	(65,381)
Other Income, Net	41,972	21,606	10,735
Minority Interest	(45,646)	(22,374)	—
Gain on Sale of Subsidiary Stock	118,178	649,467	—
Income Before Income Taxes	675,208	1,184,511	744,343
Provision for Income Taxes	241,000	223,000	296,000
Net Income	$434,208	$961,511	$448,343
Net Income Per Share	$1.54	$2.68	$1.25

The accompanying Notes are an integral part of these Consolidated Financial Statements.

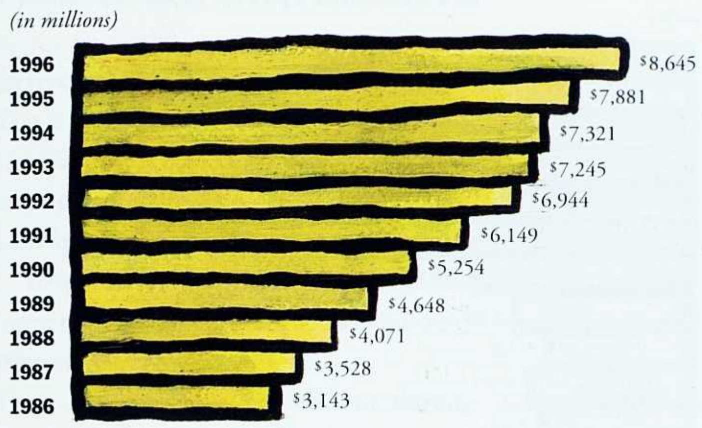
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands)

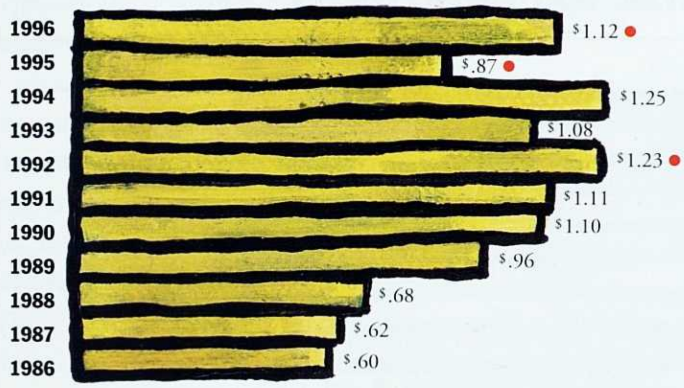
	Common Stock					Total
	Shares Outstanding	Par Value	Paid-In Capital	Retained Earnings	Treasury Stock, at Cost	Shareholders' Equity
Balance, January 29, 1994	357,801	$189,727	$128,906	$2,397,112	$(274,452)	$2,441,293
Net Income	—	—	—	448,343	—	448,343
Cash Dividends	—	—	—	(128,939)	—	(128,939)
Purchase of Treasury Stock	(629)	—	—	—	(11,382)	(11,382)
Exercise of Stock Options and Other	432	—	4,032	—	7,609	11,641
Balance, January 28, 1995	357,604	$189,727	$132,938	$2,716,516	$(278,225)	$2,760,956
Net Income	—	—	—	961,511	—	961,511
Cash Dividends	—	—	—	(143,091)	—	(143,091)
Purchase of Treasury Stock	(3,361)	—	—	—	(55,239)	(55,239)
Common Shares Subject to Contingent Stock Redemption Agreement	—	(9,375)	(7,639)	(334,586)	—	(351,600)
Stock Issued for Acquisition	730	—	7,769	—	8,231	16,000
Exercise of Stock Options and Other	393	—	4,066	—	8,438	12,504
Balance, February 3, 1996	355,366	$180,352	$137,134	$3,200,350	$(316,795)	$3,201,041
Net Income	—	—	—	434,208	—	434,208
Cash Dividends	—	—	—	(108,302)	—	(108,302)
Purchase of Treasury Stock	(85,000)	—	—	—	(1,615,000)	(1,615,000)
Exercise of Stock Options and Other	705	—	5,726	—	4,909	10,635
Balance, February 1, 1997	271,071	$180,352	$142,860	$3,526,256	$(1,926,886)	$1,922,582

The accompanying Notes are an integral part of these Consolidated Financial Statements.

NET SALES

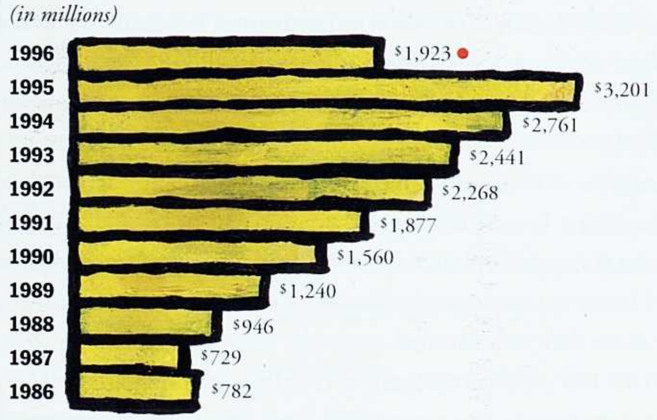


NET INCOME PER SHARE



● *Excluding gain on sale of subsidiary stock of $.42 per share in 1996, $1.81 per share in 1995 and $.02 per share in 1992.*

SHAREHOLDERS' EQUITY



● *Net of $1,615 million of common stock repurchased in the self-tender offer.*

CONSOLIDATED BALANCE SHEETS

(in thousands)

assets	Feb. 1, 1997	Feb. 3, 1996
Current Assets:		
Cash and Equivalents	$312,796	$1,645,731
Accounts Receivable	69,337	77,516
Inventories	1,007,303	958,953
Store Supplies	90,400	81,765
Other	65,261	70,346
Total Current Assets	1,545,097	2,834,311
Property and Equipment, Net	1,828,869	1,741,456
Restricted Cash	351,600	351,600
Other Assets	394,436	339,196
Total Assets	$4,120,002	$5,266,563
liabilities and shareholders' equity		
Current Liabilities:		
Accounts Payable	$307,841	$280,659
Accrued Expenses	481,744	388,818
Income Taxes	117,308	145,874
Total Current Liabilities	906,893	815,351
Long-Term Debt	650,000	650,000
Deferred Income Taxes	169,932	152,081
Other Long-Term Liabilities	51,659	50,791
Minority Interest	67,336	45,699
Contingent Stock Redemption Agreement	351,600	351,600
Shareholders' Equity:		
Common Stock	180,352	180,352
Paid-In Capital	142,860	137,134
Retained Earnings	3,526,256	3,200,350
	3,849,468	3,517,836
Less: Treasury Stock, at Cost	(1,926,886)	(316,795)
Total Shareholders' Equity	1,922,582	3,201,041
Total Liabilities and Shareholders' Equity	$4,120,002	$5,266,563

The accompanying Notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

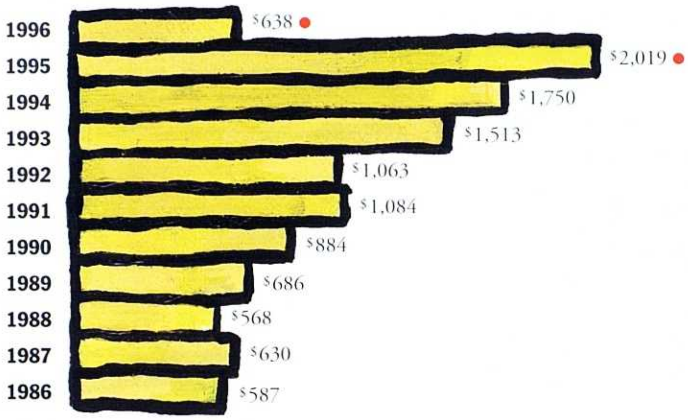
(in thousands)

cash flows from operating activities	1996	1995	1994
Net Income	$434,208	$961,511	$448,343
impact of other operating activities on cash flows			
Depreciation and Amortization	289,643	285,889	267,888
Minority Interest, Net of Dividends Paid	21,637	17,250	—
Special and Nonrecurring Items, Net	12,000	(1,314)	—
Gain on Sale of Subsidiary Stock	(118,178)	(649,467)	—
change in assets and liabilities			
Accounts Receivable	8,179	(104,121)	(235,488)
Inventories	(48,350)	(70,813)	(136,740)
Accounts Payable and Accrued Expenses	116,599	50,883	49,724
Income Taxes	(10,715)	(132,560)	61,925
Other Assets and Liabilities	7,046	(526)	(94,574)
Net Cash Provided by Operating Activities	712,069	356,732	361,078
investing activities			
Capital Expenditures	(409,260)	(374,374)	(319,676)
Businesses Acquired	(41,255)	(18,000)	—
Increase in Restricted Cash	—	(351,600)	—
Proceeds from Credit Card Securitization	—	1,212,630	—
Net Cash Provided by (Used for) Investing Activities	(450,515)	468,656	(319,676)
financing activities			
Net Proceeds (Repayments) of Commercial Paper Borrowings and Certificates of Deposit	—	(25,200)	9,500
Proceeds from Short-Term Borrowings	150,000	250,000	—
Repayment of Short-Term Borrowings	(150,000)	(250,000)	—
Net Proceeds from Issuance and Sale of Subsidiary Stock	118,178	788,589	—
Dividends Paid	(108,302)	(143,091)	(128,939)
Purchase of Treasury Stock	(1,615,000)	(55,239)	(11,382)
Stock Options and Other	10,635	12,504	11,641
Net Cash Provided by (Used for) Financing Activities	(1,594,489)	577,563	(119,180)
Net Increase (Decrease) in Cash and Equivalents	(1,332,935)	1,402,951	(77,778)
Cash and Equivalents, Beginning of Year	1,645,731	242,780	320,558
Cash and Equivalents, End of Year	$312,796	$1,645,731	$242,780

The accompanying Notes are an integral part of these Consolidated Financial Statements.

WORKING CAPITAL

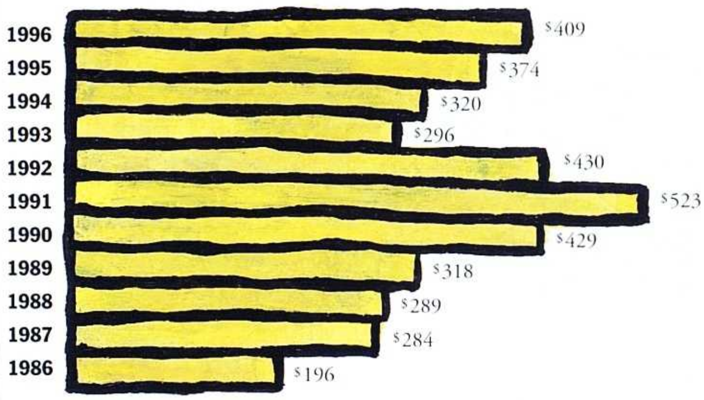
(in millions)



● *Reflects securitization of WFNNB credit card receivables of $1,213 million in 1995 and $1,615 million of common stock repurchased in the self-tender offer in 1996.*

CAPITAL EXPENDITURES

(in millions)



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. summary of significant accounting policies

principles of consolidation

The consolidated financial statements include the accounts of The Limited, Inc. (the "Company") and all significant subsidiaries which are more than 50% owned and controlled. All significant intercompany balances and transactions have been eliminated in consolidation.

Investments in other entities (including joint ventures) which are more than 20% owned are accounted for on the equity method.

fiscal year

The Company's fiscal year ends on the Saturday closest to January 31. Fiscal years are designated in the financial statements and notes by the calendar year in which the fiscal year commences. The results for fiscal years 1996 and 1994 represent the fifty-two-week periods ended February 1, 1997, and January 28, 1995. The results for fiscal year 1995 represent the fifty-three-week period ended February 3, 1996.

cash and equivalents

Cash and equivalents include amounts on deposit with financial institutions and money market investments with maturities of less than 90 days.

inventories

Inventories are principally valued at the lower of average cost or market, on a first-in first-out basis, utilizing the retail method.

store supplies

The initial inventory of supplies for new stores including, but not limited to, hangers, signage, security tags and point-of-sale supplies are capitalized at the store opening date. Subsequent shipments are expensed except for new merchandise presentation programs which are capitalized.

property and equipment

Depreciation and amortization of property and equipment are computed for financial reporting purposes on a straight-line basis, using service lives ranging principally from 10–30 years for buildings and improvements and 3–10 years for other property and equipment. The cost of assets sold or retired and the related accumulated depreciation or amortization are removed from the accounts with any resulting gain or loss included in net income. Maintenance and repairs are charged to expense as incurred. Major renewals and betterments which extend service lives are capitalized. Long-lived assets are reviewed for impairment whenever events or changes indicate that full recoverability is questionable. Factors used in the valuation include, but are not limited to, management's plans for future operations, recent operating results and projected cash flows.

goodwill amortization

Goodwill represents the excess of the purchase price over the fair value of the net assets of acquired companies and is amortized on a straight-line basis principally over 30 years.

catalogue costs and advertising

Catalogue costs, primarily consisting of catalogue production and mailing costs, are amortized over the expected future revenue stream, which is principally from three to six months from the date catalogues are mailed. All other advertising costs are expensed at the time the promotion first appears in media or in the store. Catalogue and advertising costs amounted to $242 million, $237 million and $179 million in 1996, 1995 and 1994.

interest rate swap agreements

The difference between the amount of interest to be paid and the amount of interest to be received under interest rate swap agreements due to changing interest rates is charged or credited to interest expense over the life of the swap agreement. Gains and losses from the disposition of swap agreements are deferred and amortized over the term of the related agreements.

income taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards ("SFAS") 109, "Accounting for Income Taxes." Under this method, deferred tax assets and liabilities are recognized based on the difference between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect in the years in which those temporary differences are expected to reverse. Under SFAS 109, the effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

shareholders' equity

Five hundred million shares of $.50 par value common stock are authorized, of which 271.1 million and 355.4 million were outstanding, net of 108.4 million shares and 24.1 million shares held in treasury at February 1, 1997 and February 3, 1996. Ten million shares of $1.00 par value preferred stock are authorized, none of which have been issued.

On March 17, 1996, the Company completed the repurchase of 85 million shares of its common stock under a self-tender offer at $19.00 per share. Approximately $1.615 billion was paid in exchange for the outstanding shares which was funded with funds made available from a series of transactions that included 1) the initial public offering of a 16.9% interest in Intimate Brands, Inc. ("IBI"), 2) the securitization of World Financial Network National Bank ("WFNNB") credit card receivables and 3) the sale of a 60% interest in WFNNB.

net income per share

Net income per share is computed based upon the weighted average number of outstanding common shares, including the effect of stock options. There were 282.1 million, 358.4 million and 358.6 million weighted average outstanding shares for 1996, 1995 and 1994.

issuance of subsidiary stock

Gains or losses resulting from stock issued by a subsidiary of the Company are recognized in current year's income. In 1996, the Company recognized a $118.2 million gain from the initial public offering of a 15.8% interest (8.05 million shares) of Abercrombie & Fitch Co. ("A&F"). In 1995, the Company recognized a $649.5 million gain which

resulted from the initial public offering of a 16.9% interest (42.7 million shares) of IBI. IBI consists of the Victoria's Secret Stores, Victoria's Secret Catalogue, Bath & Body Works, Cacique and Gryphon businesses. The gains recorded by the Company were not subject to tax.

Minority interest of $67.3 million at February 1, 1997 represents a 16.9% interest in the net equity of IBI and a 15.8% interest in the net equity of A&F. A more detailed discussion of these matters is included under the heading "Gain on Sale of Subsidiary Stock" in Management's Discussion and Analysis on page 32 of this Annual Report.

use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Since actual results may differ from those estimates, the Company revises its estimates and assumptions as new information becomes available.

2. special and nonrecurring items

In 1996, IBI recorded a $12 million special and nonrecurring charge in connection with the sale of Penhaligon's, a U.K.-based subsidiary of IBI, in early 1997.

In the fourth quarter of 1995, a sale of a 60% interest in the Company's wholly-owned credit card bank, WFNNB, to the New York investment firm of Welsh, Carson, Anderson & Stowe ("WCAS") was completed. The transaction resulted in the formation of a venture which will focus on providing private-label and bank card transaction processing and database management services to retailers, including the Company's private-label credit card operations. WCAS purchased its interest from the Company for $135 million and also made a $30 million capital contribution to the venture. As a result of these transactions, the Company recognized a $73.2 million pre-tax gain from the sale of WFNNB.

During the fourth quarter of 1995, the Company elected to use $45.6 million of the proceeds to provide for the accelerated closing and downsizing of stores in 1996, primarily at Limited Stores and Lerner New York, and provided approximately $26.3 million for the write-down to net realizable value of certain assets, including joint venture and other investments and receivables arising from nonoperating activities. The sale of a 60% interest in WFNNB, together with the aforementioned real estate charges and the revaluation of certain assets, resulted in a special and nonrecurring net pre-tax gain of $1.3 million. At February 1, 1997, substantially all of the planned closings and downsizings were completed, with two closings and downsizings expected to be completed shortly.

A further discussion of these matters is included under the heading "Special and Nonrecurring Items" in Management's Discussion and Analysis on page 31 of this Annual Report.

3. accounts receivable

As discussed in Note 2, the sale of a 60% interest in WFNNB was completed in the fourth quarter of 1995. In addition, WFNNB's outstanding debt to the Company of approximately $1.2 billion was repaid from the proceeds realized from the securitization of WFNNB's credit card receivables.

As a result of the sale of WFNNB and the securitization of the credit card receivables, a substantial portion of the deferred payment accounts was transferred to a special-purpose entity which facilitated the asset securitization, and any remaining deferred payment accounts, net of an allowance for uncollectible accounts, were held by the WFNNB venture.

Finance charge revenue on the deferred payment accounts amounted to $235.6 million and $223.9 million in 1995 and 1994, and the provision for uncollectible accounts amounted to $91.4 million and $72.7 million in 1995 and 1994. These amounts are classified as components of the cost to administer the deferred payment program and are included in the Company's general, administrative and store operating expenses.

4. property and equipment

Property and equipment, at cost, consisted of (thousands):

	1996	1995
Land, Buildings and Improvements	$530,259	$535,061
Furniture, Fixtures and Equipment	1,929,951	1,794,612
Leaseholds and Improvements	641,200	609,253
Construction in Progress	188,834	79,831
Total	3,290,244	3,018,757
Less: Accumulated Depreciation and Amortization	1,461,375	1,277,301
Property and Equipment, Net	$1,828,869	$1,741,456

5. leased facilities and commitments

Annual store rent is comprised of a fixed minimum amount, plus contingent rent based upon a percentage of sales exceeding a stipulated amount. Store lease terms generally require additional payments covering taxes, common area costs and certain other expenses.

A summary of rent expense for 1996, 1995 and 1994 follows (thousands):

store rent	1996	1995	1994
Fixed Minimum	$689,319	$643,200	$586,437
Contingent	23,117	18,812	17,522
Total Store Rent	712,436	662,012	603,959
Equipment and Other	25,163	26,101	27,710
Total Rent Expense	$737,599	$688,113	$631,669

At February 1, 1997, the Company was committed to noncancelable leases with remaining terms of one to forty years. A substantial portion of these commitments are store leases with initial terms ranging from ten to twenty years, with options to renew at varying terms. Accrued rent expense was $123.4 million and $102.2 million at February 1, 1997 and February 3, 1996.

A summary of minimum rent commitments under noncancelable leases follows (thousands):

1997	$684,617
1998	667,259
1999	642,397
2000	625,563
2001	598,166
Thereafter	$2,485,018

6. restricted cash

At February 1, 1997, Special Funding, Inc., a wholly-owned subsidiary of the Company, had $351.6 million of restricted cash invested in short-term, highly liquid securities. This amount is classified as a non-current asset, since it has been reserved for use in the event that The Wexner Children's Trust, established by Leslie H. Wexner, the Company's principal shareholder, exercises its opportunity to require the Company to redeem, or the Company exercises its opportunity to redeem from the Trust, shares of The Limited, Inc. common stock in accordance with the terms of the Contingent Stock Redemption Agreement (see Note 9). Interest earnings of $17.9 million in 1996 on the segregated cash accrued to the Company.

7. long-term debt

Unsecured long-term debt consisted of (thousands):

	1996	1995
7½% Debentures due March 2023	$250,000	$250,000
7⅘% Notes due May 2002	150,000	150,000
9⅛% Notes due February 2001	150,000	150,000
8⅞% Notes due August 1999	100,000	100,000
Total	$650,000	$650,000

The Company maintains a $1 billion unsecured credit agreement (the "Agreement") established on December 15, 1995 (the "Effective Date"). Borrowings outstanding under the Agreement are due December 14, 2000. However, the revolving term of the Agreement may be extended an additional two years upon notification by the Company on the second and fourth anniversaries of the Effective Date, subject to the approval of the lending banks. The Agreement has several borrowing options, including interest rates which are based on either the lender's "Base Rate," as defined, LIBOR, CD based options or at a rate submitted under a bidding process. Facilities fees payable under the Agreement are based on the Company's long-term credit ratings, and currently approximate 1/8% of the committed amount per annum. The Agreement contains covenants relating to the Company's working capital, debt and net worth. No amounts were outstanding under the Agreement at February 1, 1997.

The Agreement supports the Company's commercial paper program which is used from time to time to fund working capital and other general corporate requirements. No commercial paper was outstanding at February 1, 1997.

Up to $250 million of debt securities and warrants to purchase debt securities may be issued under the Company's shelf registration statement.

The Company periodically enters into interest rate swap agreements with the intent to manage interest rate exposure. At February 1, 1997, the Company had an interest rate swap position of $100 million notional principal amount outstanding. This contract effectively changed the Company's interest rate exposure on $100 million of variable rate debt to a fixed rate of 8.09% through July 2000.

Long-term debt maturities within the next five years consist of $100 million which matures August 15, 1999 and $150 million which matures February 1, 2001. Interest paid approximated $65.5 million, $88.4 million and $64.7 million in 1996, 1995 and 1994.

8. income taxes

The provision for income taxes consisted of (thousands):

	1996	1995	1994
currently payable			
Federal	$210,400	$190,900	$231,000
State	34,000	24,700	32,000
Foreign	2,400	4,500	4,100
Total	246,800	220,100	267,100
deferred			
Federal	(13,800)	(9,400)	12,900
State	8,000	12,300	16,000
Total	(5,800)	2,900	28,900
Total Provision	$241,000	$223,000	$296,000

The foreign component of pre-tax income, arising principally from overseas sourcing operations, was $45.9 million, $60.8 million and $40.9 million in 1996, 1995 and 1994.

A reconciliation between the statutory Federal income tax rate and the effective income tax rate on pre-tax earnings excluding the nontaxable gain from sale of subsidiary stock and minority interest follows:

	1996	1995	1994
Federal Income Tax Rate	35.0%	35.0%	35.0%
State Income Tax, Net of Federal Income Tax Effect	4.5	4.5	4.2
Other Items, Net	.5	.7	.6
Total	40.0%	40.2%	39.8%

Income taxes payable included net current deferred tax assets of $0.3 million and $10.7 million at February 1, 1997 and February 3, 1996.

The effect of temporary differences which give rise to deferred income tax balances was as follows (thousands):

	1996			1995		
	Assets	Liabilities	Total	Assets	Liabilities	Total
Excess of Tax Over Book Depreciation	—	$(19,951)	$(19,951)	—	$(39,190)	$(39,190)
Undistributed Earnings of Foreign Affiliates	—	(116,562)	(116,562)	—	(125,511)	(125,511)
Investment in Affiliates	—	(53,989)	(53,989)	—	(37,115)	(37,115)
State Income Taxes	$9,599	—	9,599	$22,875	—	22,875
Special and Nonrecurring Items	24,145	—	24,145	28,919	—	28,919
Other	19,537	(32,449)	(12,912)	28,571	(19,876)	8,695
Total Deferred Income Taxes	$53,281	$(222,951)	$(169,670)	$80,365	$(221,692)	$(141,327)

Income tax payments approximated $233.8 million, $306.1 million and $230.9 million for 1996, 1995 and 1994.

The Internal Revenue Service has assessed the Company for additional taxes and interest for years 1989–1992. The assessment was based primarily on the treatment of transactions involving the Company's construction allowances and foreign operations. The Company believes that deposits already made will mitigate any further assessments arising from construction allowances. The Company strongly disagrees with the foreign operations assessment and is vigorously contesting the matter. Management believes resolution of this matter will not have a material adverse effect on the Company's results of operations or financial condition.

9. contingent stock redemption agreement

In connection with the reconfiguration of its business, the Company purchased from shareholders via a self-tender offer, 85 million shares of The Limited, Inc. common stock for approximately $1.615 billion on March 17, 1996. Leslie H. Wexner, Chairman and CEO of the Company, as well as the Company's founder and principal shareholder, did not participate in the self-tender. However, the Company entered into an agreement, as amended in 1996, which provides The Wexner Children's Trust the opportunity, commencing on February 1, 1998, and for a period of eight years thereafter (the exercise period), to require the Company to redeem up to 18.75 million shares for a price per share equal to $18.75 (a price equal to the price per share paid in the self-tender less $.25 per share). Under certain circumstances, lenders to the Trust, if any, may exercise this opportunity, beginning February 1, 1997. The Company received the opportunity to redeem an equivalent number of shares from the Trust at $25.07 per share for a period beginning on July 31, 2006, and for six months thereafter. As a result of these events, the Company has transferred $351.6 million to temporary equity identified as Contingent Stock Redemption Agreement in the Consolidated Balance Sheets. In addition, approximately $351.6 million has been designated as restricted cash to consummate either of the above rights (see Note 6). The terms of this agreement were approved by the Company's Board of Directors.

10. stock options and restricted stock

Under the Company's stock plans, officers, directors and key associates may be granted options to purchase the Company's common stock at the market price on the date of grant. The options generally vest 25% per year over the first four years of the grant and have a maximum term of ten years. Additionally, the Company grants restricted stock to officers and key associates that generally vest either on a graduated scale over four years or 100% at the end of a fixed vesting period, principally five years. A maximum of 17.3 million shares may be granted under the plans.

The Company adopted the disclosure requirements of Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation," effective with the 1996 financial statements, but elected to continue to measure compensation expense in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, no compensation expense for stock options has been recognized. If compensation expense had been determined based on the estimated fair value of options granted in 1995 and 1996, consistent with the methodology in SFAS 123, the pro-forma effects on the Company's net income and net income per share would have been immaterial. The pro-forma effect on net income for 1996 would not be representative of the pro-forma effect on net income in future years because it does not take into consideration grants made prior to 1995.

In 1996, 1995 and 1994, approximately 468,000, 569,000 and 848,000 restricted shares of the Company's common stock were granted to certain officers and key associates. The market value of the shares at the date of grant amounted to $8.3 million in 1996, $10.0 million in 1995 and $16.7 million in 1994 and is being amortized on a straight-line basis as compensation expense over the vesting period. In 1995, 129,000 restricted shares which had been granted to IBI associates were canceled and exchanged, on a fair value basis, for IBI restricted stock. The compensation expense charged against income for restricted stock grants amounted to $9.1 million in 1996 and 1995, and $7.3 million in 1994.

The following table summarizes information about stock options outstanding at February 1, 1997:

	Options Outstanding				Options Exercisable	
Range of Exercise Prices	Number Outstanding at 2/1/97	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price		Number Exercisable at 2/1/97	Weighted Average Exercisable Price
$15–$17	1,647,000	7.0 years	$16		493,000	$15
$17–$18	2,713,000	7.4 years	$17		1,077,000	$17
$20–$22	2,341,000	5.6 years	$21		1,794,000	$21
$24–$27	905,000	5.0 years	$24		905,000	$24
$9–$31	1,593,000	6.5 years	$19		980,000	$20
$9–$31	9,199,000	6.5 years	$19		5,249,000	$20

A summary of option activity for 1994, 1995 and 1996 follows:

	Number of Shares	Weighted Average Option Price Per Share
1994		
Outstanding at Beginning of Year	7,183,000	$19.87
Granted	2,122,000	17.19
Exercised	(393,000)	11.44
Canceled	(498,000)	21.49
Outstanding at End of Year	8,414,000	$19.56
Options Exercisable at Year-End	4,100,000	
1995		
Outstanding at Beginning of Year	8,414,000	$19.56
Granted	2,196,000	17.81
Exercised	(280,000)	12.43
Canceled	(1,188,000)	19.90
Outstanding at End of Year	9,142,000	$19.32
Options Exercisable at Year-End	4,800,000	
1996		
Outstanding at Beginning of Year	9,142,000	$19.32
Granted	1,899,000	17.30
Exercised	(531,000)	14.89
Canceled	(1,311,000)	19.45
Outstanding at End of Year	9,199,000	$19.14
Options Exercisable at Year-End	5,249,000	

In 1995, the Company established a stock option plan for officers and key associates of IBI. In connection with the IBI initial public offering, associates of IBI were permitted to exchange on a fair value basis 1995 stock options of The Limited, Inc., for stock options granted by IBI. Cancellations during 1995 included 347,500 shares granted to IBI associates which were exchanged for options of IBI common stock.

11. retirement benefits

The Company sponsors a defined contribution retirement plan. Participation in this plan is available to all associates who have completed 1,000 or more hours of service with the Company during certain 12-month periods and attained the age of 21. Company contributions to this plan are based on a percentage of associates' annual compensation. The cost of this plan was $33.1 million in 1996, $30.5 million in 1995 and $26.7 million in 1994.

12. fair value of financial instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

current assets, current liabilities and restricted cash

The carrying value of cash equivalents, restricted cash, accounts payable and accrued expenses approximates fair value because of their short maturity.

long-term debt

The fair value of the Company's long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities.

interest rate swap agreement

The fair value of the interest rate swap is the estimated amount that the Company would receive or pay to terminate the swap agreement at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparty.

The estimated fair values of the Company's financial instruments are as follows (thousands):

	1996		1995	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-Term Debt	$(650,000)	$(638,798)	$(650,000)	$(645,180)
Interest Rate Swaps	$(351)	$(5,267)	$(793)	$(10,194)

13. quarterly financial data (unaudited)

Summarized quarterly financial results for 1996 and 1995 follow (thousands except per share amounts):

1996 quarter	First	Second	Third	Fourth
Net Sales	$1,787,943	$1,895,601	$1,994,986	$2,966,261
Gross Income	469,541	491,909	555,374	979,755
Net Income	28,152	33,150	159,513	213,393
Net Income Per Share	0.09	0.12	0.59	0.78
Net Income Per Share (Excluding Gain on Sale of Subsidiary Stock)	$0.09	$0.12	$0.15	$0.78
1995 quarter				
Net Sales	$1,588,134	$1,718,643	$1,803,295	$2,771,365
Gross Income	402,666	423,696	452,958	808,212
Net Income	39,211	48,762	657,313	216,225
Net Income Per Share	0.11	0.14	1.83	0.60
Net Income Per Share (Excluding Gain on Sale of Subsidiary Stock)	$0.11	$0.14	$0.12	$0.50

MARKET PRICE AND DIVIDEND INFORMATION

	Market Price High	Market Price Low	Cash Dividend Per Share
fiscal year end 1996			
4th Quarter	$20⅛	$16⅝	$.10
3rd Quarter	20¼	17¾	.10
2nd Quarter	22	18⅛	.10
1st Quarter	$20¾	$16⅝	$.10
fiscal year end 1995			
4th Quarter	$19½	$15⅛	$.10
3rd Quarter	21½	17⅞	.10
2nd Quarter	22⅞	20	.10
1st Quarter	$23¼	$16⅝	$.10

The Company's common stock is traded on the New York Stock Exchange ("LTD") and the London Stock Exchange. On February 1, 1997, there were 75,484 shareholders of record. However, when including active associates who participate in the Company's stock purchase plan, associates who own shares through Company-sponsored retirement plans and others holding shares in broker accounts under street names, the Company estimates the shareholder base at approximately 117,000.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of The Limited, Inc.

We have audited the accompanying consolidated balance sheets of The Limited, Inc. and subsidiaries as of February 1, 1997 and February 3, 1996, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three fiscal years in the period ended February 1, 1997 (on pages 34–41). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Limited, Inc. and subsidiaries as of February 1, 1997 and February 3, 1996 and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended February 1, 1997 in conformity with generally accepted accounting principles.

Coopers & Lybrand L.L.P.
Columbus, Ohio
February 24, 1997

directors

leslie h. wexner
Chairman ■

kenneth b. gilman
Vice Chairman and Chief Financial Officer

bella wexner
Secretary

martin trust
President: Mast Industries, Inc.
Andover, Massachusetts

eugene m. freedman
Senior Advisor to and Director of Monitor Company, Inc. ◆
Cambridge, Massachusetts

e. gordon gee
President: The Ohio State University ●
Columbus, Ohio

david t. kollat
Chairman: 22, Inc.
Westerville, Ohio

claudine b. malone
Financial & Management Consulting, Inc. ▲◆
McLean, Virginia

leonard a. schlesinger
George F. Baker Jr. Professor of Business Administration
Harvard Business School
Cambridge, Massachusetts

donald b. shackelford
Chairman of the Board: State Savings Bank ●▲◆
Columbus, Ohio

allan r. tessler
Chairman and Chief Executive Officer:
International Financial Group, Inc. ▲■◆
New York, New York

raymond zimmerman
Chairman of the Board: Service Merchandise Co., Inc. ▲◆
Brentwood, Tennessee

● *Member of Compensation Committee*
▲ *Member of Audit Committee*
■ *Member of Nominating Committee*
◆ *Member of Finance Committee*

executive officers

leslie h. wexner
Chairman

kenneth b. gilman
Vice Chairman and Chief Financial Officer

arnold f. kanarick
Executive Vice President and Chief Human Resources Officer

bella wexner
Secretary

wade h. buff
Vice President, Internal Audit

alfred s. dietzel
Vice President, Public Affairs

daniel p. finkelman
Vice President, Planning

samuel p. fried
Vice President and General Counsel

william k. gerber
Vice President, Finance

patrick c. hectorne
Treasurer

peter z. horvath
Vice President, Chief Financial Officer–Apparel Merchandising

kent a. kleeberger
Corporate Controller

jack listanowsky
Vice President and Chief Sourcing and Production Officer

timothy b. lyons
Vice President, Taxes

edward g. razek
Vice President and Chief Marketing Officer

jon ricker
Vice President and Chief Information Officer

bruce a. soll
Vice President and Counsel

business leaders

victoria's secret catalogue
Cynthia D. Fedus, President

abercrombie & fitch
Michael S. Jeffries, President

express
Michael A. Weiss, President

galyan's trading company
Patrick W. Galyan, President

limited too
Michael W. Rayden, President

victoria's secret stores
Grace A. Nichols, President

limited stores
Cheryl N. Turpin, President

henri bendel
Tedford G. Marlow, President

structure
David L. Mangini, President

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mast industries
Martin Trust, President

limited distribution services
C. Lee Johnson, President

limited real estate
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limited store planning
Charles W. Hinson, President

gryphon
Robert J. Ruttenberg, President

company information

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annual meeting
The Annual Meeting of Shareholders is scheduled for:
9:00 A.M., Monday, May 19, 1997, at
Three Limited Parkway
Columbus, Ohio 43230

stock exchange listings
New York Stock Exchange (Trading Symbol "LTD")
London Stock Exchange
Commonly listed in newspapers as "Limitd"

independent public accountants
Coopers & Lybrand L.L.P.
Columbus, Ohio

overseas offices
London, Paris, Kowloon, Tel Aviv, Florence, Milan, Seoul, Taipei

10-k report and information requests
A copy of Form 10-K is available without charge upon written request to Tom Katzenmeyer, Director–Investor Relations, at the headquarters listed above. For information, please call 614. 479 6400, or write the Public Affairs office at the headquarters listed above.

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the limited, inc.
Founded, 1963
As of February 1, 1997, number of associates: 123,100
approximate shareholder base: 117,000

design: sisman design printing: heritage press